

RETIREMENT READINESS: STRENGTHENING THE FEDERAL PENSION SYSTEM

HEARING

BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
U.S. POSTAL SERVICE AND LABOR POLICY
OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

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RETIREMENT READINESS: STRENGTHENING THE FEDERAL PENSION SYSTEM

WEDNESDAY, JANUARY 25, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL
SERVICE AND LABOR POLICY,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2203, Rayburn House Office Building, Hon. Dennis A. Ross (chairman of the subcommittee) presiding.

Present: Representatives Ross, Walberg, Lynch, Connolly, and Davis.

Staff present: Robert Borden, general counsel; Will L. Boyington, staff assistant; Jennifer Hemingway, senior professional staff member; James Robertson, professional staff member; Peter Warren, legislative policy director; Jaron Bourke, minority director of administration; Kevin Corbin, minority deputy clerk; Ashley Etienne, minority director of communications; William Miles, minority professional staff member; and Mark Stephenson, minority senior policy advisor/legislative director.

Mr. ROSS. Good morning. I will now call the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy to order.

Today's hearing is on "Retirement Readiness: Strengthening the Federal Pension System."

As we do in all Oversight Committees, I will recite the Oversight Committee mission statement.

We exist to secure two fundamental principles: First, Americans have a right to know that the money Washington takes from them is well-spent; and, second, Americans deserve an efficient, effective government that works for them. Our duty on Oversight and Government Reform Committee is to protect these rights.

Our solemn responsibility is to hold government accountable to taxpayers, because taxpayers have a right to know what they get from their government. We will work tirelessly, in partnership with citizen watchdogs, to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy.

This is the mission of the Oversight and Government Reform Committee.

And I know we have votes probably as early as 9:30. So we hopefully, especially with just the ranking member and I here today right now, will be able to get through this panel before we have to do votes, and then we will impanel our second panel right after that.

With that, I will recognize myself for 5 minutes to deliver my opening statement.

Today's hearing will explore options in reforming the entire Federal pension system to bring it more in line with the private-sector work force and help balance the budget. It is clear that the taxpayer cannot afford the current Federal pension cost structure in the long term.

But what is good for the goose is good for the gander. Today's hearing will also explore options to ensure that Members of Congress are treated no better than their fellow citizens in the Federal work force. The taxpayer has had enough of "do what I say, not what I do" from Washington.

Being a Member of Congress is not a career; it is an honor bestowed upon a few by the great people of this Nation—a great people who pay a great price for a work force and a Congress that costs too much.

According to an August 10, 2010, analysis conducted by the CATO Institute, the Federal Government pays almost \$42,000 in health insurance and pension benefits for Federal employees, which is nearly four times greater than that which is the average in the private sector.

Worse, Members of Congress currently receive a pension benefit that is vastly better than the rest of the Federal work force. According to the Office of Personnel Management, the average annual pension for those retiring from Congress was \$53,940. To put it in perspective, the average Social Security recipient receives \$14,000 per year.

In 2010, Obama's deficit-reduction commission recommended increasing the amount Federal employees pay toward their retirement and to start calculating their pension using the employee's average of 5-year salary rather than the current 3-year salary as a base.

Last December, Republicans in the House of Representatives passed H.R. 3630, which called for reform of the Federal pension system, making it more comparable to the marketplace and saving taxpayers \$38 billion, according to the Congressional Budget Office.

The bill also included recommendations of the President's deficit commission: increase the employee retirement contribution; eliminate the supplemental payment to individuals who voluntarily retire before age 62; and changed the pension formula for new hires. The bill also applied to Members of Congress and their staff.

Unfortunately, this bill died in the Senate, but I suppose we should not expect too much since it currently takes over 1,000 days to pass a budget in that chamber.

Today we will hear from distinguished witnesses to examine the current policies and formulas that govern Federal pensions under the Civil Service Retirement System and the Federal Employees Retirement System. We will also hear from several Members of Congress who have introduced legislation aimed at adjusted or eliminating Members' pension coverage.

Today's hearing is not about beating up on Federal employees or even Members of Congress. It is about living in the real world—a world where defined-benefit pension plans are disappearing and

market-driven solutions, like the Federal Thrift Savings Plan, are on the rise.

Protecting taxpayers and ensuring reasonable retirements for the Federal work force is our primary goal. But a deeper reality should set in here in Washington: The American people demand in their elected representatives a willingness to live under the laws they pass. They are tired of the perks and hypocrisy they witness in their Congress and are rightfully outraged by the pension benefits guaranteed to a Federal work force that has grown too large, paid for through an ever-increasing tax burden on the hardworking American taxpayer. Too many working Americans watched their pensions evaporate because of the economic consequences of debt and borrowing caused, in part, by these unsustainable promises.

There is no way to ensure value to the taxpayer and security to the worker, both private and public sector—there is—excuse me—there is a way to ensure value to the taxpayer and security to the worker, both public and private sector, through a more affordable pension system.

On top of today's hearing, I will be introducing legislation that overhauls the Federal pension system and applies to Members of Congress. H.R. 3813 would increase the employee and Member retirement contribution by 1½ percent of salary over 3 years. My bill would also eliminate the supplemental payment to individuals who voluntarily retire before the age of 62; increases the employee retirement contribution for new hires; changes the multiplier used in the pension formula; and uses a 5-year average as a salary base. And all of these reforms would apply to Members of Congress, as well.

As Congress looks forward to cut costs, Congress must also lead by example. I sincerely hope that this is just the beginning of a reform year in which we make government and Congress more accountable.

I thank the witnesses for appearing today, and I look forward to your testimony.

And I now recognize my friend and ranking member from Massachusetts, Mr. Lynch.

[The prepared statement of Hon. Dennis A. Ross follows:]

Today's hearing will explore options in reforming the entire federal pension system to bring it more in line with the private sector workforce and help balance the budget.

It is clear that the taxpayer cannot afford the current federal pension cost structure, long term.

But what's good for the goose, is good for the gander. Today's hearing will also explore options to ensure that Members of Congress are treated no better than their fellow citizens in the federal workforce.

It is AS clear that the taxpayer has had enough of "Do what I say, not what I do" from Washington. Being a Member of Congress is not a career, it's an honor bestowed upon a few, by the great people of this nation.

A great people who pay a great price for those honored to serve.

According to an August 10, 2010 analysis conducted by the Cato Institute, the federal government pays almost \$42,000 in health insurance and pension benefits for federal employees, which is nearly four times greater than the average private sector worker.

Worse, Members of Congress currently receive a pension benefit that is vastly better than the rest of the federal workforce. According to the Office of Personnel Management, the average annual pension for those retiring from Congress was \$53,940 in 2010.

To put it in perspective, the average Social Security recipient receives \$14,000 per year.

In 2010, President Obama's deficit reduction commission recommended increasing the amount federal employees pay toward their retirement and to start calculating their pension using the employee's average five year salary as a base.

Last December, Republicans in the House of Representatives passed HR 3630 which called for reform of the federal pension system, making it more comparable to the marketplace and saving taxpayers \$38 billion (according to the Congressional Budget Office).

The bill included the recommendations of the President's deficit commission and increased the employee retirement contribution, eliminated the supplemental payment to individuals who voluntarily retired before age 62 and changed to the pension formula for new hires.

This bill applied to Members of Congress and their staff.

Unfortunately, this bill died in the Senate. But I suppose we should not expect too much as it currently takes over 1,000 days to pass a budget over there.

Today we will hear from distinguished witnesses to examine the current policies and formulas that govern federal pensions under the Civil Service Retirement System and the Federal

Employees' Retirement System. We will also hear from several Members of Congress who have introduced legislation aimed at adjusting or eliminating Members' pension coverage.

Today's hearing is not about beating up on federal employees, or even Members of Congress. It is about living in the real world. A world where defined benefit pension plans are disappearing and market driven solutions, like the federal TSP, are on the rise.

Protecting the taxpayer and ensuring reasonable retirements for federal workers is our primary goal.

But a deeper reality should set in here in Washington.

The American people demand in their elected Representatives a willingness to live under the laws they pass. They are tired of the perks and hypocrisy they witness in their Congress and are rightfully outraged by the pension benefits guaranteed to a federal workforce that has grown too large, paid for through an ever increasing tax burden on the American worker. Too many hard working Americans watched their pensions evaporate because of the economic consequences of debt and borrowing caused in part by these unsustainable promises.

There is a way to ensure value to the taxpayer and security to the worker, both private and public sector, through a more affordable pension system.

On top of today's hearing, I will be introducing legislation that overhauls the federal pension system and applies to Members of Congress. HR ##### would increase the employee and Member retirement contribution by 1.5 percent of salary over three years. My bill also eliminates the supplemental payment to individuals who voluntarily retire before age 62; increases the employee retirement contribution for new hires by 3.2 percent; changes the multiplier used in the pension formula; and uses a five year average salary base.

And all of these reforms would apply equally to Members of Congress and federal employees.

As Congress looks for ways to cut costs, Congress must also lead by example. I sincerely hope this is just the beginning of a reform year in which we make government – AND CONGRESS – more accountable.

I thank the witnesses for appearing here today and I look forward to their testimony.

Mr. LYNCH. Thank you very much, Mr. Chairman. It is good to be with you this morning.

I do have to say, though, this is really—this hearing really is an attack on Federal employees, on Federal pensions. Only in Congress, only in the U.S. Congress, would a hearing entitled “Retirement Readiness: Strengthening the Federal Pension System” consist of eliminating Federal pensions. That is the way that my colleagues have suggested they are going to strengthen the pension system, is by eliminating the pension system.

A couple of other things. The President did indeed recommend that Federal employees pay more for their pension, make greater contributions. The President also suggested we eliminate the supplemental benefit for early retirees. But he introduced those ideas as part of a—in a context of asking the wealthiest in this country also to kick in, to pay a little bit more. So he conceded that, yes, we should ask Federal employees to contribute more; yes, we should pare back benefits in light of our economic crisis. But at the same time, the President said, could we ask the wealthiest in this country to pay a little bit more?

And that is why the bill went nowhere in the Senate. That is why it crashed and burned over there, because a lot of folks on the Republican side have signed this oath, this oath to Grover Norquist, that under no circumstances will they raise taxes. They won't raise taxes on the wealthiest. They won't raise taxes to pay for the war in Iraq, they won't raise taxes to pay for the war in Afghanistan, even though they describe themselves as being pro-military. Pro-military as long as they don't have to pay for it.

And this hearing and much of the testimony that you will hear today is really an attack on Federal workers. There are some comparisons here—we will get into it later—but it is sad, it is really sad in this day and age that we would just go after our Federal employees.

You know, eliminating pensions for Federal workers and eliminating pensions for Members of Congress is popular, I guess. And I think that, you know, we could have a bill that the people would support if we eliminated—if we eliminated all pay for Members of Congress, make them work for zero; eliminate their health benefits; eliminate their pensions; make them walk to work, even if from Massachusetts, make them walk back and forth. I think, you know, Congress is very unpopular right now. There is one poll out there that says that Congress' popularity is somewhere between the Taliban and the swine flu. And we probably deserve that. So, you know, it is one thing to acknowledge that and try to do better. It is quite another to feed into it.

And if we eliminate pensions and health benefits and cut pay for Members of Congress, pretty soon it will get to a point that only people who are independently wealthy—you know, if we really are ascribing to the wishes of the Founders of this Nation and those who drafted our Constitution, the Framers of the Constitution really thought that Congress should be constituted by a mixture of people and backgrounds. If we eliminate pay and pensions and health benefits for Members of Congress, only those people who are independently wealthy or retired and have had a full career will be able

to come here, will be able to afford to come here and represent the people in this great government.

So I think it is pathetic, really, that so many bills are out here to go after Federal employees. We are asked to, in every aspect of government, match up against a private sector that is enormously well-funded and well-equipped to deal with some of the issues, whether it is financial services or environmental issues. We have a hard time matching up, posting up against people who we are, you know, proposed to regulate.

But I thank the gentleman. I look forward to the testimony, and I yield back the balance of my time.

Mr. ROSS. Thank you, Mr. Lynch.

I now ask unanimous consent that the statement of House Administration Chairman Dan Lungren be placed into the record.

Without objection, it is so ordered.

Members have 7 days to submit opening statements and extraneous material for the record.

I will now introduce our first panel, and I welcome our witnesses.

We have Mr. Chuck Grimes, who is the chief operating officer for the Office of Personnel Management. We have Dr. Andrew Biggs, who is a resident scholar at the American Enterprise Institute. We have Mr. Pete Sepp, who is executive vice president of the National Taxpayers Union. And we have Mr. David Snell, who is the director of retirement benefits for the National Active and Retired Federal Employees Association.

Pursuant to committee rules, all witnesses will be sworn in before they testify. So please rise and raise your right hands.

[Witnesses sworn.]

Mr. ROSS. Thank you.

Let the record reflect that all of the witnesses answered in the affirmative.

In order to allow time for our discussion, please limit your comments to 5 minutes, and please also understand that your entire written statement will be made part of the record of this proceeding.

With that, I will recognize Mr. Grimes for 5 minutes for an opening.

STATEMENTS OF CHARLES D. GRIMES III, CHIEF OPERATING OFFICER, U.S. OFFICE OF PERSONNEL MANAGEMENT; ANDREW G. BIGGS, PH.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE; PETE SEPP, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION; AND DAVID B. SNELL, DIRECTOR OF RETIREMENT BENEFITS, NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES ASSOCIATION

STATEMENT OF CHARLES D. GRIMES III

Mr. GRIMES. Chairman Ross, Ranking Member Lynch, and members of the subcommittee, thank you for the opportunity to appear before you to discuss Federal pensions.

OPM's mission is to recruit, retain, and honor a world-class work force to serve the American people. As part of that mission and by law, OPM oversees administration of the Civil Service Retirement System [CSRS], and the Federal Employees Retirement System

[FERS], covering annuitants in the executive, legislative, and judicial branches.

OPM processes annuity payments for retirees and their survivors. As of October 1, 2010, there were 1.52 million CSRS annuitants, with an average monthly annuity of \$2,941, based upon 29.6 years of service; and 361,000 FERS annuitants, with an average monthly annuity of \$1,065, based on 17.2 years of service. There were 262 retired CSRS Members, with an average monthly annuity of \$5,785, based on 20.7 years of service; and 181 retired FERS members, with an average monthly annuity of \$3,205, based on 16.2 years of service.

Generally, Federal employees who entered service prior to 1984 are covered by CSRS. When established in 1920, coverage was limited to permanent and competitive employees in the executive branch. In the 1940's, coverage was extended to agency heads and, upon election, to the President, Vice President, and Members of Congress.

With some exceptions, Federal employees contribute 7 percent of their pay to CSRS, congressional employees contribute 7.5 percent, and Members contribute a combined 8 percent of their pay to CSRS and Social Security, while the employing agency pays those rates into the retirement fund. The CSRS defined annuity benefit is computed based on the high-3 average pay and length of service.

The Federal Employees Retirement System Act of 1986 established a new three-tier retirement structure with a defined benefit annuity, a defined contribution under TSP, and Social Security. Generally, Federal employees who entered service on or after January 1, 1984, are covered by FERS, and Members first elected in 1984 or later are automatically covered.

With FERS, Congress made a conscious and conscientious decision to prevent the underfunding problems that have plagued so many private, State, and local defined-benefit retirement systems. FERS was designed as a fully funded retirement system with a dynamic normal cost-of-service credit paid for by the employer and employee contributions. It was also designed to better serve the needs of a more mobile work force. Though the defined benefit provides maximum benefits when an employee continues Federal employment into retirement, TSP and Social Security are fully portable.

Under FERS, Federal employees contribute 0.8 percent of their pay, and the employing agency in fiscal year 2012 contributes 11.9 percent. Members and congressional employees pay 1.3 percent, and Congress pays 16.7 percent for employees and 18.3 percent for Members. Federal employees and Member contribute 6.2 percent of their pay to Social Security, with the exception of 2011 and the first couple of months of 2012 due to the payroll tax relief bill.

The FERS basic annuity is computed based on the high-3 average pay and length of service. In addition, some FERS retirees may be entitled to receive an annuity supplement, payable to age 62, based on the potential Social Security benefit earned by Federal employment.

On September 19, 2011, President Obama released "Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction." The President's plan

proposed an increase in the employee contribution to FERS and CSRS, as well as other defined-benefit plans not administered by OPM. Federal employees' total pension amounts would remain unchanged, and the employee contribution would increase 0.4 percent of pay a year over 3 years, for a total increase of 1.2 percentage points.

The President's plan also proposed the elimination of the FERS annuity supplement for new employees, other than employees subject to mandatory retirement. Overall, the plan is estimated to save \$21 billion over 10 years.

Thank you for the opportunity to testify today, and I am happy to address any questions you may have.

[The prepared statement of Mr. Grimes follows:]



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

**STATEMENT OF
CHARLES D. GRIMES III
CHIEF OPERATING OFFICER
U.S. OFFICE OF PERSONNEL MANAGEMENT**

before the

**SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND
LABOR POLICY
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
UNITED STATES HOUSE OF REPRESENTATIVES**

on

**"RETIREMENT READINESS: STRENGTHENING THE FEDERAL PENSION
SYSTEM"**

January 25, 2012

Chairman Ross, Ranking Member Lynch and members of the Subcommittee:

Thank you for allowing me the opportunity to appear before you today to discuss Federal pensions. As you know, the topic of pension plans has been in the media for local, State and Federal employees over the past several months. The Office of Personnel Management's (OPM) mission is to recruit, retain and honor a world-class workforce to serve the American people. As part of that mission, and by law, OPM oversees the administration of the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) on behalf of Federal annuitants. These include Federal employees in the executive, legislative and judicial branches of the Federal Government. OPM is responsible for processing the annuity payments for retired Federal employees and their survivors, including Members and Congressional

**Statement of Charles D. Grimes III
Chief Operating Officer
U.S. Office of Personnel Management**

January 25, 2012

employees. As of October 1, 2010, there were 1.52 million CSRS annuitants with an average annuity of \$2,941 per month based upon 29.6 years of service and 361 thousand FERS annuitants with an average annuity of \$1,065 per month based upon 17.2 years of service. As for Members, there were 262 retired CSRS Members with an average annuity of \$5,785 per month based upon 20.7 years of service and 181 retired FERS Members with an average annuity of \$3,205 per month based upon 16.2 years of service.

Civil Service Retirement System

Generally, Federal employees and Members that have retirement coverage and entered service prior to 1984 are covered by CSRS. CSRS is a defined benefit plan where Federal employees and Members share in the expense of the annuities. When the Civil Service was originally established in 1920, Federal employee coverage was limited to permanent competitive employees in the executive branch. In the years thereafter, coverage was extended to other classes of employees. The Act of January 24, 1942, (P.L. 77-411) changed the existing approach regarding retirement coverage, greatly expanding it. That Act extended coverage to heads of executive departments and agencies, and, upon their election, to the President, Vice President, and Members of Congress. However, this extension of coverage was promptly rescinded by legislation approved March 7, 1942 (P.L. 77-490). Members of Congress were finally permitted to be covered, at their option, by section 602 of Public Law 79-601, approved on August 2, 1946. At that time, the new law provided that Members' annuities would be computed with a multiplier of 2.5 percent per year of service, with a maximum of 75 percent attained after 30 years. By way of comparison, while there were three methods of computing annuities for employees, the one applicable to the highest paid employees (those earning over \$2,800 per year) was to multiply the

**Statement of Charles D. Grimes III
Chief Operating Officer
U.S. Office of Personnel Management**

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average pay by years of service not exceeding 35 and then dividing the result by 70. This yielded approximately 1.43 percent per year of service, with a maximum annuity of 50% after 35 years of service.

At the present time, with some exceptions, Federal employees contribute 7 percent of their basic pay to CSRS, Congressional employees contribute 7.5 percent, and Members contribute a combined 8 percent of their basic pay to CSRS and Social Security while the employing agency pays those percentage rates to the Retirement Fund. In addition, Federal employees and Members under CSRS may also contribute a portion of their basic pay to the Thrift Savings Plan (TSP). Under CSRS, a Federal employee or Member must complete at least 5 years of creditable civilian service to be eligible for an annuity. The annuity is computed based on a percentage of the high-3 average pay and length of service. The average salary applicable to employees and Members was changed from a high-5 to a high-3 by the Civil Service Retirement Act of 1969 (P.L. 91-93). The high-3 average pay is the average basic pay earned during any three consecutive years of service.

Under CSRS, there were changes in the employee accrual rate, increasing under the Civil Service Retirement Act of 1956 (P.L. 84-854). Currently, for most employees, the CSRS annuity is calculated as 1.5 percent for the first 5 years of service, 1.75 percent for the next 5 years of service and 2.0 percent for each year in excess of 10 years. For Members and Congressional employees, the CSRS annuity is calculated as 2.5 percent for each year of congressional service and up to 5 years of military service, with other service computed at the regular employee rates. Generally, the CSRS annuity cannot be more than 80 percent of the high-3 average pay, or 80

**Statement of Charles D. Grimes III
Chief Operating Officer
U.S. Office of Personnel Management**

January 25, 2012

percent of final pay for Members, unless the amount over 80 percent is due to the crediting of unused sick leave.

Under CSRS, Members are eligible for an unreduced immediate annuity at age 62 if they have completed at least five years of service or at age 60 with 10 years of Member service. They are eligible for a reduced immediate annuity at age 55-59 with 30 years of service, and unless separated by resignation or expulsion, at age 50 if they have completed 20 years of service, or at any age after completing 25 years of service. Under CSRS, Federal employees are eligible for an immediate annuity at age 62 if they have completed at least five years of service, at age 60 if they have completed 20 years of service, or at age 55 after completing 30 years of service.

Federal Employees' Retirement System

The Federal Employees' Retirement System Act of 1986 (P.L. 99-335) changed the basic structure of retirement benefits. It established a new three-tier structure composed of a defined basic benefit/annuity tier, a defined contribution tier (TSP), plus Social Security. Generally, Federal employees that have retirement coverage and entered service on or after January 1, 1984 are covered by FERS and Members first elected in 1984 or later are automatically covered by FERS. When FERS was created, the Congress made a conscious and conscientious decision to prevent the underfunding problems that have plagued so many private, State, and local defined benefit retirement systems. FERS was designed as a fully funded staff retirement system, with the full dynamic normal cost of service credit paid for by employer and employee contributions. The heart of this is the concept that costs are based upon a calculation of the "normal cost percentage." While the technical definition is more detailed and complex, in essence the "normal cost percentage" is the percentage of salary that must be contributed at the time service is

**Statement of Charles D. Grimes III
Chief Operating Officer
U.S. Office of Personnel Management**

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performed in order to pay the full cost of retirement benefits, assuming that the contributions begin at first creditable employment, and that the system will continue. The normal cost percentages change from time to time based upon changes in the underlying economic assumptions. To fully fund the retirement system, the normal cost percentage of basic pay is paid into the Retirement Fund at the time service is performed.

When creating FERS, the Congress also made a number of other important policy decisions. One of these was to make the structure much more portable, and able to serve the needs of an ever more mobile workforce. While FERS itself provides maximum benefits when an employee continues Federal employment into retirement, the TSP and Social Security are fully portable.

FERS was designed to replicate the replacement income ratio of the older CSRS for career employees. However, the Congress required employees to make a greater contribution towards their retirement. To achieve the same level of retirement income most employees must match the 7 percent of basic pay contributed by CSRS employees (which is paid towards FERS and Social Security), plus choose to pay an additional 5 percent towards TSP in order to receive the maximum employer TSP contribution. Realizing that this might be difficult for the lowest paid employees, the Congress took note of the fact that Social Security benefits are weighted in favor of lower income employees, thereby achieving a similar level of replacement income for them.

The basic annuity and Social Security portions of FERS require Federal employees and Members to pay their share each pay period. Currently, Federal employees contribute 0.8 percent of their basic pay under FERS and the employing agency, in fiscal year 2012, contributes an amount equal to 11.9 percent of pay. Members and Congressional employees pay 1.3 percent of their

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salary to FERS and Congress pays approximately 16.7 percent of payroll for Congressional employees and 18.3 percent of pay for Members. In addition, Federal employees and Members contribute 6.2 percent of their pay to the Social Security taxable wage base, with the exception of 2011 and the first couple months of 2012 after passage of the payroll tax relief which was signed into law.

Under FERS, a Federal employee or Member must complete at least 5 years of creditable civilian service to be eligible for the basic annuity. The FERS basic annuity is computed based on a percentage of the high-3 average pay and length of service. For most employees, the FERS basic annuity is calculated as 1.0 percent of the high-3 average salary for each year of service. For employees age 62 or older and over 20 years of service, the FERS basic annuity is calculated as 1.1 percent of the high-3 average salary for each year of service. For Members and Congressional employees, the FERS basic annuity is calculated as 1.7 percent of the high-3 average salary for the first 20 years and 1.0 percent of the high-3 average salary for each year thereafter. In addition to this basic annuity, some FERS retirees may be entitled to receive a FERS Annuity Supplement payable until the age of 62. The FERS Annuity Supplement is based upon the amount of the potential Social Security benefit earned by Federal employment.

Generally, under FERS, Federal employees and Members are eligible for an immediate annuity at age 62 if they have completed at least five years of service, at age 60 with 20 years of service, at the MRA (Minimum Retirement Age, 55-57 depending upon year of birth) with 30 years of service. They may also retire at MRA with 10 years of service on a reduced annuity. In addition,

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Members, unless separated by resignation or expulsion, may also retire at age 50 if they have completed 20 years of service, or at any age after completing 25 years of service.

President Obama's Reform Efforts

On September 19, 2011 President Obama released Living Within Our Means and Investing in the Future, the President's Plan for Economic Growth and Deficit Reduction. The President's Plan proposed an increase in the employee contribution to FERS and CSRS, as well as other defined benefit plans not administered by OPM. While Federal employees' total pension amounts would remain unchanged, the employee contribution to FERS proposed would increase 0.4 percent of pay a year over three years for a total increase of 1.2 percentage points. The President's Plan also proposed the elimination of the FERS Annuity Supplement for new employees, other than employees subject to mandatory retirement. Overall, the plan is estimated to save \$21 billion over 10 years.

Conclusion

I want to thank you for this opportunity to testify today and I am happy to address any questions you may have.

Mr. ROSS. Thank you, Mr. Grimes.

Mr. Biggs, you are recognized for 5 minutes for an opening.

STATEMENT OF ANDREW G. BIGGS, PH.D.

Mr. BIGGS. Thank you very much.

Chairman Ross, Ranking Member Lynch, and members of the subcommittee, thank you for offering me the opportunity to testify today with regard to Federal employee retirement benefits.

Legislation has been proposed that would alter Federal employee retirement benefits by increasing employee contributions and reducing the percentage of final earnings replaced by the FERS pension plan.

If we wish to ensure comparability of pay between the public and private sectors, whether these policies make sense depends, in part, upon how the Federal and private-sector pension provision compares. If Federal compensation drops below private-sector levels, then the government may have difficulty attracting and retaining employees. If Federal compensation exceeds private levels, however, then taxpayer resources may be wastefully employed.

To illustrate potential differences, I analyzed retirement benefits for a typical Federal employee relative to what a private-sector worker with the same salary could expect to receive. The details of my calculations are outlined in my written testimony, but I will summarize the results here.

While older Federal employees are covered under the Civil Service Retirement System, younger and newly hired workers will receive retirement income from three principal sources: Social Security benefits, the defined-benefit Federal Employee Retirement System, and the defined-contribution Thrift Savings Plan. Most private-sector workers will receive retirement income from a combination of Social Security and a defined-contribution 401(k)-type pension plan.

In a defined-benefit plan, retirement benefits are calculated using a formula based upon final earnings and the number of years of service. In a defined-contribution plan by contrast, benefits are a function of contributions and interest earned over the years. Workers may choose how to invest their contributions, but they also bear any market risk associated with those choices.

I assumed a Federal employee retiring at age 62 after 28 years of service with final earnings of \$78,650, which is roughly typical for Federal employees of that age. At retirement, he or she would be eligible for the following benefits: \$18,264 per year in Social Security benefits, \$23,710 from the FERS plan, and \$8,610 from his or her TSP account. The Federal employee's total retirement income would equal roughly \$50,583, or 64 percent of their final earnings.

A private-sector worker with the same salary could expect to receive the same Social Security benefit of \$18,264, plus around \$7,044 from a 401(k) plan with a typical employer match. The private-sector worker's total benefit of \$25,308 replaces roughly 32 percent of final earnings.

For this stylized employee, Federal retirement benefits are roughly twice as generous as those paid to a typical private-sector worker. Federal employees receive an employer match to their de-

financed-contribution TSP pension that is significantly more generous than the typical private-sector plan, in addition to which they receive defined benefits through the FERS plan.

Federal employees also may have access to supplemental benefits if they retire prior to age 62 and to retiree health coverage. In short, the Federal Government retiree income package is a generous one that few private-sector employers match or exceed.

Now, differing employees will experience different outcomes, and we obviously can disagree about some of the assumptions made in generating these figures. But no reasonable changes to assumptions will show Federal retirement benefits to be comparable to or inferior to a typical private-sector plan.

These figures alone do not say what we should do about Federal employee pensions. What matters is the total compensation package, which includes salaries, pensions, other fringe benefits, job security, and general working conditions. Yet most peer-reviewed academic research conducted over the past several decades has shown Federal employees' salaries to be higher than those paid to private-sector workers with similar levels of experience and education. My own work with Jason Richwine of The Heritage Foundation found similar results with salaries, while recording a total benefits package that exceeded private-sector levels.

Employee compensation is often described and certainly perceived as a matter of fairness. But the fair level of compensation, meaning fair both to employees and to taxpayers, is the minimum level that allows the Federal Government to attract and retain the employees it needs. It appears that the Federal compensation taken as a whole exceeds that minimum level, sometimes by a significant margin.

Whether to alter the terms of Federal retirement benefits, salaries, or other terms of employment is up to Congress to decide. It should be done in the context not of meeting some specific budgetary goal but of setting pay that competes with but doesn't supersede private-sector levels.

Thank you very much.

[The prepared statement of Mr. Biggs follows:]

Chairman Ross, Ranking Member Lynch and Members of the Committee,

Thank you for offering me the opportunity to testify with regard to federal employee retirement benefits. My name is Andrew Biggs and I am a resident scholar at the American Enterprise Institute. The views I express today are my own and do not represent those of AEI or any other institution.

Legislation has been proposed that would alter federal employee retirement benefits by increasing employee contributions and reducing the percentage of final earnings replaced by the FERS pension plan. Whether to increase federal employee pension contributions or reduce pension benefits depends in part upon how federal and private sector pension provisions compare. Most research indicates that federal employees receive salaries that are at least comparable to those of private sector workers with similar levels of education and experience. Other federal employee benefits, such as paid time off, are also at least comparable to private sector levels.

Thus, the relative generosity of federal employee pensions can influence the attractiveness of the overall federal compensation package. If federal compensation drops below private sector levels then the government may have difficulty attracting and retaining employees. If federal compensation exceeds private levels, however, then taxpayer resources may be wastefully employed.

Background

Federal employees hired prior to 1984 participate in the Civil Service Retirement System (CSRS), a defined benefit pension plan that provides the entirety of their employer-provided retirement benefits. CSRS coverage does not include Social Security eligibility, meaning that CSRS benefits are intended to provide for essentially the entirety of a full-career employee's retirement income. CSRS employees contribute 7 percent of their wages to the program.

Federal employees hired since 1984 participate in a mixed defined benefit/defined contribution plan. The Federal Employee Retirement System (FERS) provides a reduced defined benefit pension while the Thrift Savings Plan (TSP) provides a defined contribution pension similar to a private sector 401(k) or non-profit 403(b) plan.

Employees contribute 0.8 percent of their wages to FERS. Contributions to the TSP are voluntary, although the federal government makes a 1 percent of salary contribution even for employees who make no deposits of their own. In addition, the government makes matching contributions for employees who do participate in the TSP. The government matches contributions dollar-for-dollar for the first 3 percent of pay contributed by the employee and 50 cents on the dollar contributions above that level, to a maximum employer match of 5 percent of salary for workers who contribute 5 percent or more of pay.

In addition, FERS-covered workers participate in Social Security on the same terms as private sector employees. Thus, total retirement income for a full-career employee could be expected to be the sum of FERS, TSP and Social Security benefits.

Comparing federal and private sector retirement benefits: Assumptions

In this section I compare the retirement benefits available to a typical federal employee versus what a similarly-paid worker in private sector employment would be likely to receive. While no illustration accurately reflects all individuals, the assumptions made in these calculations are reasonable and small differences should not materially alter the results.

I began by creating a stylized salary history for a federal employee who begins federal service in 1984 at age 34 and retires in 2012 at age 62 with final earnings of \$78,650, roughly equal to a typical federal employee's salary at that age.¹ I then estimate prior year earnings using annual wage growth factors reported in the FERS/CSRS annual report.² The working lifetime of 28 years is consistent with average federal experience.³ I assume retirement at age 62 in order to simplify comparisons of Social Security benefits, although the average federal employee actually retires four years younger at age 58.⁴

This illustration differs from reality in one important sense: it calculates benefits available under the FERS/TSP/Social Security combination, even though most federal employees retiring today after 28 years of service would be covered under CSRS. Since CSRS is closed to new entrants, the intent of the example is to illustrate federal and private sector benefits payable under rules and practices in place today.

For defined contribution TSP and 401(k) plans, I assume that both federal and private sector employees contribute 6 percent of pay and receive the maximum employer matching contribution. I assume that the private sector employer provides a 401(k) matching contribution equal to 3 percent of worker salaries. This is the median value calculated by the Bureau of Labor Statistics for workers classified as "Management, professional, and related."⁵ Likewise, I assume that the federal government makes the

maximum employer match of 5 percent of pay.

Table 1 illustrates assumed pension contribution rates for federal and private sector workers.

Table 1. Assumed Pension contributions

| | Federal | Private |
|----------------------|---------|---------|
| Defined benefit | 0.8% | 0.0% |
| Defined contribution | 6.0% | 6.0% |
| Employer DC match | 5.0% | 3.0% |

For comparability between defined benefit and defined contribution pensions, I follow Congressional Budget Office practice in assuming that contributions to the TSP and 401(k) plans are

¹ Author's calculations from OPM Fedscope data.

² See "Annual Report of the Board of Actuaries, Civil Service Retirement and Disability Fund Fiscal Year Ended September 30, 2010. Released February 2011.

³ Congressional Budget Office. "Characteristics and Pay of Federal Civilian Employees." March 2007.

⁴ While broadly accurate, the specifics of this stylized earnings history matter little for comparisons of the relative generosity of federal and private sector pensions. The reason is that federal and private sector workers with the same earnings would receive the same Social Security benefits and their other pension benefits are proportional to their earnings.

⁵ Source: National Compensation Survey.

<http://www.bls.gov/ncs/ebs/detailedprovisions/2010/ownership/private/table28a.txt>

invested in government bonds.⁶ This adjustment recognizes the trade-off between risk and return in investments such as stocks and produces a guaranteed retirement benefit whose value can easily be compared to guaranteed benefits received through a defined benefit pension.

I assume that workers convert their TSP or 401(k) balances to an inflation-adjusted life annuity at retirement using rates published by the Thrift Savings Plan. This allows for easy comparison of DC pensions, which produce lump sums at retirement, to the annual benefit payments provided under DB pension plans.

Comparing federal and private sector retirement benefits: Results

At retirement, the federal employee would be eligible for an annual FERS benefit of approximately \$23,710 per year. FERS benefits are eligible for annual Cost of Living Adjustments, although not to the full extent that Social Security benefits are. The annual benefit payable based on the federal employee's TSP account, inclusive of both worker and employer contributions, would be roughly \$8,610. This amount is also assumed to be inflation-adjusted post-retirement. Finally, the federal employee would be eligible for Social Security benefits at age 62 of approximately \$18,264 per year.

Table 2. Annual pension benefits at age 62

| | Federal | Private |
|---------------------------|----------|----------|
| Defined benefit | \$23,710 | \$ - |
| Defined contribution | \$8,610 | \$7,044 |
| Social Security | \$18,264 | \$18,264 |
| Total | \$50,583 | \$25,308 |
| Percent of final earnings | 64% | 32% |

Total annual federal employee retirement benefits would equal \$50,583. This amount is equal to 64 percent of earnings immediately preceding retirement. Financial advisors generally recommend a "replacement rate" of 70 to 80 percent of final earnings for an adequate retirement income. Note, however, that this example assumes a very truncated working career,

beginning at age 34 and ending at age 62. Thus, for neither the federal nor private sector worker can this example render judgment on the adequacy of retirement income for a typical full-career worker.

A worker employed in the private sector would most likely rely upon Social Security and a defined contribution 401(k) pension plan for retirement income. A private sector worker with the same earnings as a federal employee covered under FERS would receive the same Social Security benefit, in this case \$18,264 per year. Based on a total employee/employer contribution of 9 percent of pay to a 401(k), annual income payable from the account at age 62 would be approximately \$7,044. This payment, like benefits from the TSP, is assumed to be adjusted for inflation.

Total retirement income for the private sector worker would be approximately \$25,308 per year. This is equal to 32 percent of pre-retirement earnings and is almost precisely half what a federal employee with similar earnings would be eligible to receive.

Variations in the generosity of federal pensions

⁶ Congressional Budget Office. "Evaluating and Accounting for Federal Investment in Corporate Stocks and Other Private Securities." 2002.

The example above illustrates retirement benefits using a typical federal employee. However, the generosity of pension benefits is not uniform across the federal government. For instance, relative to the standard FERS package for ordinary civil service employees, the retirement plan offered to congressional staff is roughly 1.43 times more generous per year of work; to Members of Congress, 1.55 times more generous; and to air traffic controllers and law enforcement officers, roughly 2.15 times more generous.⁷

FERS relative to state and local government pensions

Federal employees contribute 0.8 percent of their salaries to FERS and receive a benefit equal to 1 percent of final earnings multiplied by the number of years of service. Very few private sector employers offer DB pensions and where in operation private sector DB plans are generally non-contributory. However, it is possible to compare federal employee pensions to those received by state and local government workers. For purposes of comparison, I restrict myself to state/local employees who also participate in Social Security. In these state/local pensions, the average employee contribution as of 2009 was 4.8 percent of pay and the average replacement factor was 1.9 percent of final salary, meaning that state/local employees contribute roughly 2.6 percentage points of salary for each percent of final earnings replaced by their plan.⁸ Federal employees, by contrast, pay 0.8 percent of salary for each percentage point of final earnings replaced, less than one-third as much. I should warn that accounting differences between federal and state/local pensions complicate these comparisons. Nevertheless, the federal employee DB pension contribution is low, even by public sector standards.

Additional federal retirement benefits

The comparison above captures the relative generosity of federal and private sector retirement benefits through a stylized example. However, this example leaves out several important benefits that may be afforded to federal workers preparing for retirement:

FERS annuity supplement: Federal employees who retire prior to age 62 with unreduced benefits may be eligible to receive a FERS supplement which approximates the value of the Social Security benefit they will be eligible to claim once reaching the Social Security retirement age.⁹ The supplement allows long-career federal employees to retire prior to age 62 while receiving what is in effect an “early-early” Social Security retirement benefit.

⁷ Office of Personnel Management. “Federal Employees’ Retirement System; Normal Cost Percentages.” Federal Register /Vol. 72, No. 109. Thursday, June 7, 2007

⁸ Author’s calculations from Public Plans Database.

⁹ The Office of Personnel Management first estimates the individual’s Social Security benefit as of age 62. OPM then multiplies this amount by the ratio of the individual’s years of service under FERS to 40 years, taken as a full working career. For instance, an individual who retires after 30 years of federal service would have his estimated Social Security benefit multiplied by $\frac{30}{40}$ and thus receive 75 percent of the age-62 Social Security benefit. This payment continues until the earlier of age 62 or when the individual first becomes eligible for Social Security benefits. More information on the FERS Annuity Supplement is available at <http://www.opm.gov/retire/pre/fers/annuitysupp.asp>.

TSP investment return subsidy: There is a significant implicit subsidy to federal employees investing in the TSP's government bond fund (known as the "G Fund"). The G fund is the largest fund in the TSP, holding \$128.6 billion of the \$291 billion TSP total as of December 21, 2010. The G Fund invests solely in special-issue, non-tradable short-term Treasury securities, which implies that there is neither credit nor interest rate risk on the fund. However, the interest rate attributed to those short-term securities is based upon the weighted average yield on all outstanding Treasury securities with durations to maturity of 4 or more years. In effect, federal employees receive the risk premium attached to long-term Treasury securities but enjoy the lower risk of short-term securities. According to the TSP, this provides a rate of return subsidy of almost 1.8 percentage points over the yields available to private investors, including private sector workers with 401(k) plans.¹⁰ Given a current G Fund balance of around \$129 billion, the annual subsidy equals \$2.28 billion, which is equal to around 2.0 percent of total federal employee payroll.

Conclusions

The TSP is a more generous defined contribution plan than the typical 401(k) offered to private sector employees, with an employer match that is larger than that offered to roughly 80% of private sector employees.¹¹ In addition, federal employees continue to receive defined benefit pensions, something that relatively few private sector employees are eligible for. As a result, federal employees in general receive employer contributions toward retirement benefits that are significantly in excess of those paid to similar private sector workers. Combined with salaries and other benefits that most academic studies have determined to be at least comparable to private sector levels, more generous retirement benefits can increase total federal employee compensation significantly above what is received by private sector workers with similar levels of education and experience. Given this, and given ongoing pressures on the federal budget arising from a number of sources, some have proposed changes to federal employee retirement benefits. It is my position that any benefits already accrued should not be altered. Those benefits have been promised and earned, and the obligation to pay them should be honored.

However, in the private sector it is not uncommon that pension provisions be altered on a forward-looking basis. An employer might freeze its defined benefit pension or change contribution rates to defined contribution accounts. Market discipline prevents plan sponsors from doing too little or too much in terms of changes to retirement plans. There is no legal or policy reason why public sector employees should be exempt from such changes. For instance, if the defined benefit FERS program were phased out, the retirement package offered to federal government employees would remain competitive with the vast majority of private sector employers.

Given this, it is unlikely that increases in federal employee pension contributions or reductions in pension benefits for future federal retirees would lower total compensation below federal workers' reservation wage, which represents the minimum pay at which a worker will accept a particular type of job. As a result, a less-generous federal retirement package is unlikely to significantly affect the federal government's ability to attract and retain employees.

¹⁰ Thrift Savings Plan. G Fund Fact Sheet. Available at <https://www.tsp.gov/PDF/formspubs/GFund.pdf>

¹¹ Author's calculations based on BLS data.

Mr. ROSS. Thank you, Dr. Biggs.

Mr. Sepp, you are recognized for 5 minutes for an opening.

STATEMENT OF PETE SEPP

Mr. SEPP. Mr. Chairman and Mr. Ranking Member, members of the committee, I am very grateful that you invited National Taxpayers Union to testify today.

I will begin my testimony by referring to another testimony, one that occurred in 1984 from our pension consultant at the time, H.P. Mueller. He pointed out not only the dimensions of the old Civil Service Retirement System and its possible financial difficulties; he also talked about how that current system was unfair to Federal retirees and employees, as well. So we are approaching this issue from both perspectives.

Another interesting parallel, though, is that he was saying, even at that time, that the consultants the committee that he was testifying before, Hay Associates, paid to try and do private-sector comparisons with pensions still were not including an adequate universe of the private sector to conduct such a comparison. I think we still have those difficulties today. I think it is a testament to my fellow panelist, Mr. Biggs, that he could come up with such great comparisons with the private sector.

That is one of the points that I would like to make in this testimony. We still need high-quality data to do good comparisons of congressional Federal employee compensation versus the private sector. That is going to be necessary for any reform efforts moving forward.

Another point I would like to make has to do with bipartisan ship. We are going to have a great deal of partisan disagreement over what direction to take over pension reform. I would contend that this kind of bipartisan effort has to begin not only within Congress but outside of Congress. We are willing to do that; we have been doing that.

I would call your attention to this report, "Toward Common Ground." This was put out by NTU and U.S. Public Interest Research Group, a left-of-center organization, identifying over a trillion dollars' worth of budget savings. This was not easy. It took us sitting down in a room, arguing with each other, literally coming close to pulling each other's hair out, but we settled on these recommendations.

One of them had to do with the granting of waivers under OPM for retired annuitants coming back into Federal service and drawing full dual compensation. We noted that if this practice were curtailed, if the rules were restored to a more reasonable level, you could achieve something on the order of \$600 million in savings over 5 years. Not much, but it is a start. My message: If we can do it, so can Congress.

Which brings me to Congress. I am not here necessarily to argue that Members should not be compensated at all. How about we start with a few basic reforms that can show the American people we are trying to make progress?

One I think, H.R. 981. It would allow Members to opt out of the FERS system. That is a good start. H.R. 2162, it would expand the number of felonies to 20 that would disqualify a Member for receiv-

ing a pension. Let's start there, see where else this could possibly lead.

One example might be to simply equalize the contribution rates and benefit formulas for Members with those of the general Federal rank-and-file. I know my testimony has conducted a couple of comparisons along those lines. One I would like to point your attention to—and, here again, I am not talking about comparisons between the general public and Members of Congress but rather between Members and the rank-and-file. Is the differential, the amount of extra benefit plus the amount of extra contribution Members pay, justifiable? I would argue the time has come to reconsider that.

Just one illustration: Ten years of service of a lawmaker, 10 years of service of a rank-and-file employee, same salary. The employee gets about \$15,600 in pension to start at 62; the Member, \$26,600. For that differential, the Member pays a little over \$8,300 over his or her entire career. And that is an \$11,000 extra benefit in the first year for about \$8,300 worth of extra contributions over 10.

That provides an illustration, I think, that we can approach this from a sensible perspective and say, all the rhetoric, all the anger from the public aside, we have some genuine issues that can be resolved here. We are willing to work with you to do that.

And let me thank you, Mr. Chairman, as well as Mr. Gowdy and Mr. Chaffetz, for cosponsoring several pieces of reform legislation that could help get this conversation going.

Thank you.

[The prepared statement of Mr. Sepp follows:]

Mr. Chairman, Mr. Ranking Member, and Members of the Committee, I am honored to have been invited to present the views of the 362,000-member National Taxpayers Union (NTU) on strengthening the federal pension system and related provisions in H.R. 3630 (as introduced).

Since NTU's founding in 1969, our members and staff have learned firsthand that few issues can match the complexity or controversy of government employee compensation. It is at once a matter affecting the livelihoods of millions of households, the personnel policies of public and private entities at all levels, the federal government's long-term finances, and, of course, the well-being of taxpayers. Balancing all of these important – and very human – factors in a bipartisan policymaking environment has historically proven to be challenging. Accordingly, I hope you will find it not too presumptuous for me to recall a piece of NTU's own history to provide perspective for today's hearing.

Introduction: Retirement Issues Have Historically Centered on Balance

In March of 1984, H.P. Mueller, then a Pension Research Consultant for NTU, testified before the House Committee on the Post Office and Civil Service to offer views on a federal retirement system that was on the verge of a fundamental transformation. As one would expect from a spokesperson for a grassroots taxpayer group, Mueller began his remarks by voicing concern for “the silent majority whose benefits are modest in comparison to the Civil Service Retirement System (CSRS), who pay for 87 percent of the cost of the federal employee plan, and who believe they are not being fairly represented.”

Perhaps more surprising to some, however, are the remarks that followed Mueller's observation, namely:

At National Taxpayers Union, we believe federal employees deserve a fair and reasonable pension for their hard work and dedicated service. At the same time, we believe the federal government, as an employer, has an obligation to ensure at least a minimal level of financial security for all its employees in retirement. I would suggest that you and your predecessors, despite your success in creating what many consider to be one of the most generous pension programs ever created, have failed in meeting this most basic objective.

One reason for this bold statement was that at the time, actuaries projected that 62 percent of all new federal employees would separate from employment before vesting in CSRS, leaving these workers with a lump-sum refund they would likely not put away for their futures.

Then – as now – there was likewise a great deal of discussion over how best to assess the total federal benefit package. Mueller called upon Members of the Committee to “consider a fair evaluation of other employee benefits,” in both the public and private sectors. Back then, federal health benefits were judged to be “not as comprehensive as private sector plans.”

One major consideration in this exercise was an analysis undertaken on behalf of the Committee from Hay Associates demonstrating that private firms set aside, on average, an equivalent 8 percent of payroll for their defined benefit arrangements. Mueller pointed out that Hay Associates failed to adequately account for small businesses in its sampling technique. Even so, other data from the Bureau of Labor Statistics (BLS) provided glaring contrasts: just 3 percent of all private-sector plans offered normal Cost of Living Adjustments (COLAs) to benefits, while a plurality of plans set a normal retirement age that was much stricter than the options offered to federal employees.

NTU performed its own calculations to show government versus typical private benefits for a worker retiring in 1974 with an average “high-three” salary of \$15,000 and service of 30 years. Had each lived to what was then a normal 21-year retirement lifetime, the federal retiree's combined benefit would have been almost 2-1/2 times greater than the corporate retiree's (\$402,702 vs. \$157,808).

The impact of retirement programs on federal finances seemed as urgent then as it is today. Mueller showed that between 1960 and 1982, outlays for Social Security ballooned by 1,288 percent, part of a “recent fiscal crisis” that saw the program far outstrip growth (690 percent) in the rest of the federal budget. Over the same period, Civil Service retirement *expenditures* exploded by 2,101 percent, almost eight times greater than the increase in retirement *annuities*.

FERS: The Balance Shifts

The upshot of all these statistics was an urgent need to overhaul the entire government employee pension scheme, not merely for the sake of taxpayers, but for retirement security of the federal workforce as well. Among the changes Mueller envisioned:

- 1) Congress should consider a program for new hires based entirely on defined contributions.
- 2) If Congress decides to continue a defined-benefit program, it could be fully funded by the employer if expenses could be held to private-sector norms.
- 3) Cost of Living Adjustments should be limited, preferably capped at 5 percent.
- 4) Early retirement benefits should be more carefully adjusted to reflect industry-standard actuarial reductions.

The resulting legislation creating the Federal Employees’ Retirement System (FERS) did make major progress toward Mueller’s concerns. One chief attribute was to close off to the maximum extent possible the prospect of huge unfunded liabilities, the kind that were at the time threatening to swamp the entire CSRS program. COLAs were not capped, but a new formula was established to make them less of an unpredictable cost factor than they were under CSRS. New early retirement reductions were also incorporated.

But easily the most important outcome of FERS has been the creation of the federal Thrift Savings Plan (TSP), which can now serve as a model for other governments to follow. Writing in a July 2011 Issue Brief (Number 359) for the Employee Benefit Research Institute, Jamie Cowen, a Congressional aide deeply involved with the creation of FERS, noted that: “At the time, these were hugely controversial moves, and yet today FERS garners overwhelming support from federal workers.”

For their part, taxpayers can take some satisfaction that FERS was instituted in sufficient time to prevent an intermediate-term meltdown of the entire federal retirement structure. It is why, today, Members of Congress can reassess the pension system in an environment not (yet) dominated by crisis. This should not, however, be taken to mean that no further reforms are necessary.

2012: Time for a New Balance?

Obviously some things have changed since FERS’ creation and Mueller’s testimony. Federal health benefits have certainly improved, while defined contribution plans have become commonplace in the private sector.

Still, it is a supreme irony of the Information Age that the availability and interpretation of data would be such points of dispute in current discussions over whether federal retirement benefits are:

- Financially sustainable;
- Comparable to benefits offered to private-sector workers; and
- Equitable to annuitants as well as taxpayers.

One of the few things that proponents and critics of reforms to federal pensions can agree upon is that today’s hearing will not settle these points of dispute. But perhaps the following presentation will help to convey NTU’s view that policymakers should approach their deliberations with the most cautious

fiscal considerations in mind. Because my fellow panelists have much more technical expertise in these areas, I will only provide Members of the Committee with a basic overview.

Financial Sustainability: Look Carefully Behind Trust-Fund Accounting

FERS has inarguably reduced the risk of CSRS-type unfunded liabilities to a low order of magnitude. Under its current program structure, only errors in the assumptions surrounding agency contributions can produce shortfalls (which are then made up through the Treasury). This admirable quality, however, does not remove taxpayers from the fiscal equation, as the following points will hopefully clarify.

According to a January 2011 Congressional Research Service (CRS) report, "Federal Employees' Retirement System: Budget and Trust Fund Issues" by Katelin Isaacs, the unfunded liability within the Civil Service Retirement and Disability Fund (CSRDF) will continue to grow until the year 2030, reaching a high of \$853.1 billion. On top of paying to satisfy this mountain of obligations, the "general revenues of the Treasury" will cover CSRS COLAs for decades. The report also cites an Office of Personnel Management (OPM) statement confirming that once certain CSRS "assets" are depleted in the year 2022, there will be an "increase in the supplemental liability under FERS ... which must then be amortized by a new series of 30-year payments under FERS to be made by the Treasury."

"Solvency": An Important Concern, but So Is Soundness

The Civil Service Retirement and Disability Trust Fund is indeed perpetually solvent under current projections from the Office of Management and Budget (OMB), reaching an estimated income of nearly \$1.4 trillion by 2080. This is a praiseworthy development compared to the fiascoes associated with previous federal pension financing.

Still, as the Congressional Research Service report noted, the assets in this Trust Fund (by law, held in U.S. Treasury bonds), are "not a store of wealth for the government" or for taxpayers: "When the CSRDF redeems the Treasury bonds that it holds, the Treasury must raise an equivalent amount of cash by collecting taxes or borrowing from the public."

The Congressional Research Service report specifically compared this situation to Social Security's Trust Fund, reprinting a tract from the "Analytical Perspectives" of the Fiscal Year 2010 federal budget that may be familiar to Members of the Committee, but which bears repeating:

The existence of large trust fund balances, therefore, does not, by itself, increase the Government's ability to pay benefits. Put differently, these trust fund balances are assets of the program agencies and corresponding liabilities of the Treasury...

Veronique de Rugy of the Mercatus Center provided another commentary on federal pension finances that merits mention. Last week she calculated that "In 2008, federal annuitants and survivors who participated in defined benefit plans received benefits nearly 20 times the amount current employees paid in." Some would call this an "apples-to-oranges" comparison, but it at least helps to capture the dimensions of the CSRDF's operation.

The CRS report's explanation of differences between cash contributions and transfers of budget authority through agency contributions notwithstanding, CSRDF's operations will *always* have implications for past, present, and future taxpayers.

FERS: A Cost Decline or a Cost Shift?

According to the Congressional Budget Office (CBO), federal outlays for civilian retirement (which include several pension systems as well as annuitants' health care) will increase from \$87 billion this fiscal year to \$115 billion in the year 2021. This is relatively significant cost containment: 32 percent versus projected rates of increase more than twice as high percent for Medicare and Social Security. CSRDF's Board of Actuaries estimates that CSRDF expenditures as an equivalent share of federal salaries and wages will shrink from roughly 38 percent now to 22 percent by the year 2080, comprising a tiny representative proportion of Gross Domestic Product (GDP).

Yet as the Congressional Research Service report dutifully reminds readers, the drop in expenditures as a share of GDP will be largely attributable to the rise in FERS participants over those enrolled in CSRS: "The FERS basic annuity was designed to be smaller relative to high-three average pay than a CSRS annuity because FERS annuitants also receive benefits from Social Security and the Thrift Savings Plan."

Members of the Committee are well aware that Social Security faces numerous financial challenges, including current cash-flow deficits. Moreover, Social Security's Trust Fund assets (like CSRDF's, bonds pledged against taxpayer resources) are projected to reach exhaustion in 2036. Thus, CSRDF's decreasing outlays are less an indication of overall federal fiscal health than they are the result of shifting federal retiree benefit responsibilities into a program that is headed toward bankruptcy.

Private-Sector Comparability: Consider the Big Picture, Because the "Small Picture" Is Murky

One of the most vehemently-debated aspects of the federal pension reform issue centers upon whether government employees are under- or over-compensated compared to their private-sector counterparts. For this reason we welcome recent calls from those within the Office of Personnel Management and other agencies to conduct new research that will explore this question in-depth. Apparently the last such major undertaking occurred more than 20 years ago.

In any case, opponents and proponents of the provisions in H.R. 3630 have mustered various analyses in the public and private sectors to make their cases on the matter of comparability. My fellow panelist Andrew Biggs has far more to contribute to the detailed aspects of this discussion than NTU can, among them the value of job security in calculating federal compensation. After all, in the case of an employer-sponsored defined benefit plan, job security is the very essence of retirement security: it not only affects vesting and service-accrual for pensions, it also bears directly upon features such as early drawing rights.

While NTU would contend that the preponderance of evidence suggests most federal retirees are at least *not undercompensated*, my objective is to encourage Committee Members to consider broader issues.

To give one example, you have no doubt heard that private-sector pensioners put little or none of their own money into their plans, even as all CSRS and FERS participants must contribute to their systems. This is quite true. According to the National Compensation Survey by the Bureau of Labor Statistics from March 2011, only 4 percent of all private-industry workers participating in a defined benefit pension plan were required to make a contribution out of their earnings.

Here, however, is another truth. According to Office of Personnel Management directives for Fiscal Year 2012, the combined individual and agency contribution rate as a share of salaries and wages is 12.7 percent for rank-and-file workers. The employee's share of that rate is permanently fixed at 0.8 percent. As noted above, Trust Fund mechanics aside, the agency contributions have real-world implications for federal finances and taxpayers.

There is also a significant question over how these costs compare to the private sector. The most current data from the Bureau of Labor Statistics indicates that for *all workers in private industry*, employer costs for defined-benefit retirement plans amount to 2.2 percent of wages and salaries. Certainly, though, when focusing only on the larger companies that still offer these pensions, the costs could be much higher than 2.2 percent.

Many illustrations have been conducted in an attempt to establish the value of a government versus a private pension. In a Summer 1997 feature in the BLS publication *Compensation and Working Conditions*, Ann Foster concluded that the differences in public (including state and local) and private sector retirement benefits “are less pronounced when factors such as employee contributions and Social Security coverage are considered.” She asserted that the cost-of-compensation differential “between sectors reflects differences in the work activities and occupations in each sector.”

In August 1998, the Congressional Budget Office weighed in on the benefit matter with five hypothetical employee cases. The result, according to the report:

Depending on age, salary, length of service, and retirement plan, benefits range from 26 percent to 50 percent of pay for federal employees and from 24 to 44 percent of pay for employees of the large private firms. In most cases examined, the value of the employee benefit package offered by the federal government exceeds the value of comparable benefits offered by private firms.

The CBO study encompassed numerous benefits, such as health insurance and sick leave. Focusing only on retirement payments, however, the value of the FERS benefit beat the private-sector equivalent in all five cases. However, the CSRS package was more lucrative than the private sector’s in just one of three cases (two of the cases were not applicable because the hypothetical employees would not have been eligible to join CSRS).

Volume 65, Issue 1 of the 2003/2004 *Social Security Bulletin* contained an analysis by Patricia P. Martin involving four earnings scenarios generated by wage data from the Social Security Administration. Martin then calculated replacement rates for each earnings level for retirement benefit packages comprised of various components, such as pension-only or pension plus federal Thrift Savings Plan. The author summarized her findings with the following passage:

This analysis shows the possibility of replacement rates exceeding 100 percent for FERS employees who contribute 6 percent of their earnings to the Thrift Savings Plan over a full working career. Private-sector replacement rates were quite similar for workers with both a defined benefit and a defined contribution plan.

These are but three of many studies in the field of public and private sector benefit comparability, and they obviously share one trait: results that vary with particular assumptions about pay, age, and service, as well as whether state and local government workers are included in the “mix.” But is there another obvious trait that is being overlooked?

Foster’s study noted that in 1993-94, the participation rate of public sector employees in defined benefit plans was 91 percent, versus 56 percent in the private sector. She also remarked that among these pension plans, virtually all government workers’ retirement formulas were based on terminal earnings (e.g., three highest years of salaries), while 61 percent of private workers’ were. Additionally, more than half of the government plan (including state and local) participants could count on automatic inflation adjustments, while just 4 percent of private enrollees could.

Despite its impressive estimates derived from Social Security Administration data, the Martin study depended on Bureau of Labor Statistics findings that stated:

In 2000, 33 percent of private-sector employees participated in defined benefit plans, 46 percent participated in defined contribution plans, and 14 percent participated in both. ... There is no standardized benefit formula that can represent the variety of formulas used in the private sector to calculate retirement income and replacement rates.

Finally, I am mentioning the CBO examination out of sequence because of its importance. In its "Qualifications of the Retirement Comparisons" section, CBO cautions:

Federal retirement plans would look much more generous than they do here if they were compared with those of the private sector as a whole. The private firms in the database are not representative of private practices; they offer relatively generous retirement benefits compared with many other firms. For example, all 800 firms offer some retirement program, and two-thirds offer plans that include both a defined contribution plan and a defined benefit plan to supplement Social Security. By contrast, data for 1993 from the Employee Benefit Research Institute show that only about 60 percent of all civilian nonagricultural wage and salary workers outside of government have employer- or union-sponsored retirement programs, and only about 20 percent of those participating in retirement plans have coverage under both defined benefit and defined contribution plans.

Members of the Committee should bear in mind that all of the caveats mentioned above come from studies dating back as far as 15 years (employing data that is even older). The most recent BLS statistics would show that defined benefit plans are available to only about 20 percent of all private industry workers, and roughly 18 percent of them actually participate. The share of firms offering a defined contribution plan on top of a pension is likely much smaller. Meanwhile, about one-quarter of private-sector pension plans are "frozen" to new entrants, and a declining proportion of their sponsors are offering replacement pension options.

There are many other considerations involved with weighing public and private-sector pension plans against each other. H.R. 3630, for example, would phase in a "high-five" salary component for the "secure annuity" pension computation, which is closer to the private industry norm. In the final analysis, though, I would contend that such comparisons are becoming less relevant precisely because government systems like FERS are being stacked up against plans that don't resemble reality for the vast majority of private-sector workers.

Equitability: The Most Difficult Goal of All

By necessity, this hearing has involved discussion over figures such as dollars, contribution ratios, discount rates, and life expectancies. Yet, behind these figures are human beings from a multitude of economic backgrounds and political views. The success of any federal pension reform effort depends upon the perception that the final policy product is, if not ideal, at least an acceptable compromise. Here again, neither my testimony nor this hearing will settle matters such as what is "fair" to federal workers or what is "reasonable" protection against future burdens on the federal budget. Still, I wish to offer some ideas from the perspective of taxpayers.

One argument often made against scaling back federal pension formulas is that government employees should not be blamed for "corporate America's" failure to provide adequate worker benefits. Yet, even though the defined benefit pension has receded in the private sector, defined contribution plans have dramatically expanded. Federal workers have not been excluded from this salutary development. Equally important, though, is the role that federal laws have played in this trend. On one hand, retirement asset-accumulation has become increasingly portable and less tied to the workplace, through the creation of tax-advantaged traditional and Roth Individual Retirement Accounts, and through plans available to the self-employed. In addition, the Pension Protection Act of 2006 appears to be helping efforts to stabilize

remaining defined benefit plans in private industry and reducing the prospects of a massive taxpayer bailout of the Pension Benefit Guaranty Corporation. One element of that law, according to a 2011 Society of Actuaries report entitled “The Rising Tide of Pension Contributions Post-2008: How Much and When?” is that it:

made changes that increased employer flexibility by allowing the deductibility of contributions significantly greater than the minimum required contribution, so that plan sponsors could tax-efficiently fund plans more during positive economic times.

On the other hand, some laws and regulations had the opposite effect. In a 2009 *Social Security Bulletin* (Volume 69, Issue Number 3) article entitled “The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers,” Barbara Butrica, Howard Iams, Karen Smith, and Eric Toder wrote:

Subsequent tax legislation enacted in the 1980s, including the Tax Equity and Fiscal Responsibility Act of 1982 and the Tax Reform Act of 1986, reduced incentives for employers to maintain their DB plans (Rajnes 2002). Since then, the adoption of DB pension plans by new businesses has virtually halted and has been replaced by the adoption of 401(k)-type pension plans that permit voluntary employee contributions (Munnell and Sunden 2004). One study found that increased government regulation was the major factor in 44 percent of DB plan terminations in the late 1980s (Gebhardtshauer 2004). Another study noted that from 1980 through 1996, government regulation increased the administrative costs of DB plans by twice as much as those of similar-sized DC plans (Hustead 1998).

Another “equitability” argument is that federal workers should not be “singled out” for shouldering the burden of deficit reduction. This is quite valid, in that numerous other federal programs have contributed heavily to the federal government’s financial woes.

Still, is it not equally important to acknowledge that an insolvent government will not be able to meet its obligations to federal retirees? Or, that a solvent yet debt-burdened government will be forced to make less thoughtful, ill-timed changes to benefit programs than a government which takes gradual steps back toward sustainability? My colleague Andrew Moylan accurately summarized the situation in testimony he provided to Congress on the Balanced Budget Amendment last year:

In the past decade, under the direction of Presidents and Congressional leadership from both parties, our federal budget has expanded dramatically no matter what measure one consults. At the dawn of the new millennium in 2001, federal outlays were about \$1.8 trillion, a level below post-World War II averages at 18.2 percent of our economy. Through the middle of the decade, we saw an explosion in spending driven by such factors as the creation of a new cabinet-level Department of Homeland Security as well as increased expenditures on defense and education. By 2003, the modest spending discipline of the late 1990s had given way to federal outlays that now seem permanently fixed at or above the post-war average of 19.6 percent of GDP. ... In 2011, we will raise through the Tax Code and spend (in real terms) roughly the federal budget of 2003 and throw in an amount approximating the 1982 federal budget just for good measure. ... While NTU’s dedication to limited government would on its own lead us to conclude that this spending spree is unacceptable, sheer mathematics tell us that it is unsustainable.

H.R. 3630 provides for an ambitious increase in the current employee contribution rates for FERS and CSRS, yet as Members of the Committee are aware, there has been precedent for asking them to make some sacrifice to reduce the deficit. The Balanced Budget Act of 1997 raised the contribution rate by 0.4 percent in two phases (a third phase was repealed). Today’s short-term and long-term budget outlook is by most measurements much worse than it was 15 years ago.

Bipartisanship: A Vital Ingredient in Any Mix of Reforms

Still another argument against H.R. 3630's provisions is that they were crafted without bipartisanship. As the official invitation I received to this hearing indicates, however, those reform proposals are rooted in the National Commission on Fiscal Responsibility and Reform created by President Obama. The Commission's deliberations were in turn informed by a report from the progressive think tank Third Way, which pointed out that in the private sector, the combined cost of most defined benefit-defined contribution plans is shared almost equally between employer and employee. In contrast, Third Way President Jim Kessler and Senior Fellow for Health and Fiscal Policy David Kendall wrote in a September 2010 Idea Brief:

Over the next ten years, taxpayers will contribute more than \$263 billion to fund FERS, which is considerably more than what the federal government spends on college financial aid through Pell grants. Over the next twenty years, taxpayer contributions will reach roughly \$626 billion. Employee contributions are miniscule – less than \$20 billion over ten years and less than \$50 billion over twenty years.

Some would respond that the President's Commission failed to reach consensus on the final report and that Third Way did not recommend benefit changes on top of its call for higher contribution rates. However, H.R. 3630 did not propose an equal contribution formula for non-“secure annuity” FERS participants.

More to the point, are there other signs of bipartisan activity on behalf of federal pension reform? Fortunately there are. In May of 2011, a *National Journal* Congressional Insiders poll, involving 22 Democratic and 27 Republican Members of Congress, shed light on the contribution question. Seventy-eight percent of Republicans and 36 percent of Democrats answered affirmatively to the question, “Should federal employees have to match the amount that the government contributes to their pensions?” Forty-six percent of Democrats – not a majority – and 19 percent of Republicans were opposed, with others having mixed opinions. One Democratic Member's comment was particularly instructive: “The change should happen over time, not all at once, and should be prospective only.” A poll definitely does not constitute a legislative consensus, but it offers a glimpse of how such a consensus might begin to be formed. It has already gotten underway at the state and local level, one example being Rhode Island Treasurer (and Democrat) Gina Raimondo's very comprehensive pension reform plan enacted in 2011.

Other signs can be seen in the interest group community. In September of 2011, National Taxpayers Union joined with the left-of-center U.S. Public Interest Research Group (USPIRG) in releasing “Toward Common Ground,” a report intended to “break through the ideological divide that has dominated Washington this past year and offer a pathway to address the nation's fiscal problems.” The report provided more than 50 recommendations, totaling over \$1 trillion in budget savings, pertaining to domestic as well as defense programs. This exercise involved a high degree of compromise, but the end result was a collaborative document whose guidance is backed by policy experts across the political spectrum.

One “Common Ground” recommendation of particular relevance to the Committee concerns the practice of “double-dipping.” As you know, the issue of federal employees receiving multiple forms of pay and pensions has carried controversy for much of our nation's history. Though the Dual Compensation Act of 1964 and subsequent refinements have addressed many facets of the issue, NTU and USPIRG took note of an emerging trend. In rehiring a federal annuitant to active service, the law generally requires that the annuitant's new compensation be reduced by the amount of his or her pension. However, OPM is empowered to grant waivers in urgent cases so as to permit full salary and a full

pension. In researching the issue, Senator Coburn's staff determined that between 2000 and 2007, the number of waivers has increased nearly six-fold. Revising this policy, which has likely accelerated due to more double-dipper flexibility under the 2010 National Defense Authorization Act, could save more than \$600 million over 10 years.

The Ultimate Equitability Issue: Congress Itself

Perhaps the most uncomfortable – but necessary – question of “fairness” still to explore in this testimony touches Members of the Committee directly: your own retirement benefits, for which it is widely acknowledged you work hard to earn. It is on this topic that NTU has amassed a certain amount of direct experience.

I am occasionally asked by longtime Washington observers why the general public – amid multi-trillion-dollar federal issues that will have a much greater impact on their future – would concern themselves so much with Congress's salary and benefit structure. The reason is elementary: the issue is comprehensible. If we were to ask any citizen – even one with a Ph.D. in finance – whether \$10 billion is too much or too little to pay for a new aircraft carrier, few would be able to offer anything more than a generalization. Ask them, on the other hand, if \$26,000-plus is too much or too little for an initial pension of a married lawmaker retiring with 10 years of service at age 62 in 2013, and they will likely have a definite opinion based on their own salary and retirement arrangements. Because citizens can directly relate Congress's compensation matters to their own daily lives, they take on an importance far out of proportion to their place in the federal budget. I would argue that this alone is good cause for lawmakers to pay careful heed to the design of their compensation. But there are others.

For many years, NTU has conducted the most detailed estimates of Member pensions available to the general public. One reason we undertook this project was due to lack of disclosure of such information. In 1993, for example, NTU was denied a Freedom of Information Act request to gain access to Member pension data. OPM's explanation to us was the following:

Based on the U.S. Court of Appeals decision in the case of *National Association of Retired Federal Employees v. Horner*, it is our policy not to provide pension rates for individual Members of Congress because to do so would violate their privacy without shedding light on how the Government conducts its business.

Last week this “wall of secrecy” began to come down, thanks to the work of Bloomberg News Service. Bloomberg's reporting team was able to examine the entire database of federal pension annuitants, including Members of Congress. Among their findings were that nearly 50,000 retirees were receiving pension benefits greater than their final salaries – a trend NTU first spotted among lawmakers about 20 years ago. In fact, in 1988, NTU announced that for the first time three former Members – Ben Reifel, Margaret Chase Smith, and Albert Gore, Sr. – had become millionaires solely through their federal pension benefits.

Bloomberg News is to be commended for such painstaking research, though it prompts the question of why the details on Member pensions were so carefully guarded in the first place. Indeed, the limited disclosure has often worked against your own interests, spurring all kinds of tall tales that continue to pervade the Internet today (e.g., the bogus notions that lawmakers retire on full salary for life after just a few years of service or that they don't participate in Social Security).

Issues of transparency and correcting the record aside, Congress indisputably does provide a better pension arrangement for itself than for most of the rank-and-file in the Executive Branch. According to a 1993 Congressional Research Service analysis by Carolyn Merck entitled “Brief

Comparison of Retirement Eligibility and Benefits for Members of Congress and Executive Branch Personnel,” the pension as an equivalent of “high-three” salary for a Member of Congress retiring under FERS with 20 years of service was 34 percent, compared to 20 percent for a typical Executive Branch employee. Similar advantages were observed at levels of service amounting to 10 and 30 years, as well as for the CSRS component. Furthermore, lawmakers could collect a full immediate pension under CSRS at age 60 with 10 years of service; a rank-and-file federal worker would need to have 20 years of service to retire at that age. Under FERS, a full pension is available to Members with 20 years of service at age 50; the majority of Executive Branch employees can retire at 60 with 20 years.

Is this difference justified? Like many of the points explored in my testimony, this is an extremely subjective question. Nonetheless, I hope to demonstrate that the time has come for Congress to rethink the reasons for continuing its current retirement arrangement.

A continuously-updated Congressional Research Service report “Retirement Benefits for Members of Congress,” currently authored by Katelin Isaacs, usefully quotes part of the Senate’s report on legislation (P.L. 79-601) extending CSRS coverage to lawmakers. It explains that Congress’s own participation (beginning in 1946) was designed to be generous because it:

would contribute to independence of thought and action, [be] an inducement for retirement for those of retiring age or with other infirmities, [and] bring into the legislative service a larger number of younger Members with fresh energy and new viewpoints concerning the economic, social, and political problems of the Nation.

Has this vision been fulfilled? One way to test the proposition is to examine the rate of lawmakers seeking reelection before and after 1946. In theory, the more generous pension would “induce” a greater share of lawmakers to retire, thereby serving the cause of rotation in office. Yet another CRS report, “Reelection Rates of House Incumbents, 1790-1994” by David Huckabee, is a helpful starting point. Between 1900 and 1946, the average percentage of House incumbents seeking reelection was close to 90 percent. Between 1946 and 1994, the percentage was just slightly *higher*. Since 1994, the rate has fluctuated, but not greatly. A CRS report from January 2011 entitled “Congressional Careers: Service Tenure and Patterns of Member Service, 1789-2011” by Matthew Eric Glassman, et al., summarized the data this way:

Prior to the Civil War, it was common for 40 percent of Representatives or more to not seek reelection, and prior to 1887 no Congress saw fewer than 25 percent of Representatives not seek reelection. During the 20th and 21st Centuries, the rate at which members have not sought reelection has remained roughly constant, at an average of 11 percent.

Clearly, the more generous pension has not impacted voluntary reelection rates. But what about “involuntary” reelection rates? Should Members of Congress receive special pension consideration because of the tenuous nature of their office?

Making such a comparison is fraught with difficulties, not the least of which is that House Members stand for election every two years. In theory, the chance of unemployment for a Representative in an odd-numbered year is near zero (barring a rare occurrence such as expulsion). By my crude calculations, the average annual civilian unemployment rate in election years from 1946 through 2010 approached 6 percent. The average House Member “unemployment rate” (i.e., loss of election or nomination) in that same period approached 8 percent. To taxpayers, this differential would likely not be decisive in awarding Congress a pension that is far more generous than what they could hope to receive. In any case, Congress’s own economic policies have impacted and will continue to impact the private-sector employment picture.

It is true that the Senate has a higher turnover rate, but here again, the prospect of unemployment in five out of six years is low. It is also the case that compared to the federal rank-and-file, Congressional job security is somewhat less assured. My own imperfect reading of CRS data suggests that the average Congressional pensioner has between 30 and 50 percent less service than a typical FERS or CSRS annuitant. Yet, BLS data shows that between 2001 and 2009, the average annual rate of "Layoffs and Discharges" (an admittedly different measure from actual unemployment) in the federal government was around 6 percent. This deliberately excludes 2010, where layoffs and discharges seemed artificially high, perhaps due to the Census.

Moreover, according to OpenSecrets.org, at the end of the 111th Congress a total of 370 former Representatives and Senators were serving in full-time or part-time capacities either as lobbyists or with entities seeking to influence federal policy (subject to legal restrictions). This is not necessarily a surprising trend, given lawmakers' expertise in many issues. Furthermore, some of the "interests" to which they lend their talents are grassroots organizations on both sides of the political spectrum. I raise this analysis not to launch into a debate about lobbying ethics, but rather to demonstrate that Members have – and are taking – many post-Congressional career opportunities.

Finally, lawmakers do make a higher contribution toward their pensions, but taxpayers ultimately come out on the short end of this equation. Taking a hypothetical example of a married lawmaker versus an Executive Branch employee with 10 years of service retiring at age 62 in 2013 (with the same salaries), the Member pension would begin at roughly \$26,600. The Executive Branch Employee's pension would begin at approximately \$15,600. For this "head start" of about \$11,000 in the first year's benefit, the lawmaker will have contributed some \$8,350 extra over his or her career to the plan. Meanwhile, even as the FERS agency contribution for most federal workers has fluctuated in the 11-12 percent range, the agency share for Members has been gradually rising. In 1997, the rate applicable to lawmakers was 15.2 percent; by 2007 it had grown to 17.7 percent, and this year it stands at 18.3 percent.

None of these comparisons are precise, and all suffer from overgeneralizations. Yet, to NTU, they suggest that reform is both desirable and feasible.

Incremental or Comprehensive? Congress Has Numerous Choices

What direction should such reforms take? The second panel of this hearing will explore the topic in greater depth, but I will offer a few observations.

H.R. 2913 and H.R. 3480 would enact the most comprehensive overhaul of Congress's retirement benefits, by repealing the defined-benefit pension portion of the Congressional retirement package while allowing Social Security and federal Thrift Savings Plan participation to continue.

Both bills would result in a salutary effect on the policymaking process itself. For one, by becoming more dependent on the Thrift Savings Plan for their retirement income, Members will gain a more direct, real-world appreciation for the effects that their own legislating can have on the economy as a whole and financial markets in particular. Equally important, lawmakers will have clearly demonstrated the personal sacrifice and leadership necessary to amplify the vitally-needed national conversation over reducing federal expenditures or eliminating unnecessary programs.

H.R. 2397 would link the eligibility age of defined-benefit pensions for Members of Congress to the retirement age for Social Security. CRS estimated that at the beginning of October 2009, defined benefit payments to former Senators and Representatives (many of whom retired well before the normal Social Security age) would amount to more than \$26 million for the year ahead. This legislation would

help to relieve part of the burden from future “early-collecting” Congressional pensioners, and provide leadership-by-example on one of the most important issues facing America today: reforming the entire Social Security system.

H.R. 2162 would expand the circumstances under which Members of Congress may lose their pensions for committing offenses of the law, thereby offering better protection against abuses of the public purse as well as the public trust. The indignation some taxpayers feel over lawmakers’ pensions is compounded by the humiliation they must suffer when Members of Congress who commit grave crimes are allowed to continue drawing pensions. Since the 1980s, NTU has identified lawmakers convicted on charges ranging from bribery to fraud who were each receiving pensions worth tens of thousands of dollars annually (or more) – sometimes while serving prison terms. According to our calculations, at least 16 living, former Members of Congress convicted of serious (at or approaching felony-level) charges are eligible for pensions whose combined yearly value is roughly \$800,000. This conservative figure does not include deceased offenders.

Thus, in 2007 taxpayers greeted with relief the declaration from Congressional leaders that the newly-passed Honest Leadership and Open Government Act had rectified this embarrassing problem. Unfortunately, the statute was not up to the task, and its weaknesses will only become more evident with future experience. In the course of legislative negotiations, Title IV of the Act left far too many possibilities open for pension transgressions against taxpayers from convicted lawmakers. H.R. 2162 would provide a prudent and welcome dose of additional reform, by doubling (to 20) the list of crimes sufficient to disqualify a lawmaker for federal pension benefits. These new triggers include acts such as obstruction of justice, expenditures to influence voting, racketeering, and tax evasion. Furthermore, the bill would apply the strictures to former Members convicted of such crimes while serving in any public office, not just Congress – a situation which, sadly, has already manifested itself.

Other reform approaches include H.R. 2652, to extend the pension vesting period for lawmakers to 12 years, and H.R. 3565, to increase the contribution rates for Members to their own plan. Finally, H.R. 981 would reverse current law and allow Members to opt out of FERS.

All of these bills deserve serious consideration this year, as would a proposal to simply equalize Congress’s benefit structure with that of rank-and-file federal workers. Swift passage of H.R. 981 and H.R. 2162 should be the absolute minimum Congress does in the very near-term to begin addressing aspects of the retirement system.

Conclusion: Congress Must Lead Federal Pension Reform

In last year’s debate over extending payroll tax relief and over H.R. 3630 in particular, NTU gave its support to the House-crafted measure not because it was ideal, but because it was the most palatable option for taxpayers in the hodgepodge of proposals being offered at the time. One warning we gave in our letter to lawmakers on the development of “extender” legislation like H.R. 3630 was:

[T]his slapdash procedure, which leaves little time for taxpayers to grasp the wide-ranging impacts of the bill, is not consistent with the commitments that many Members made to conduct the people’s business in a transparent and timely manner.

Accordingly, we hope that moving forward, Members of Congress will give careful consideration to the following principles:

- **Congress Must Address Its Own Benefits First.** This means at the very least, bringing lawmakers’ benefit rules in line with those covering the majority of other federal employees.

- **Transparency and Good Data Are Key.** Designing a sustainable and fair federal retirement system requires more comprehensive comparisons with the entire private sector, not just the dwindling portion of defined benefit plans that primarily larger firms might provide. Indeed, some of the more sweeping proposals for federal pension reform have centered around phasing out the defined benefit entirely, and perhaps giving employees a larger TSP “match” to make up for reductions in pensions. Establishing benchmarks for any transformation, even a modest one, will be immensely important.
- **Federal Pensions Can Be Part of the Deficit Reduction Effort, but That Effort Is Best Made Holistically.** The best possible way to avoid charges that Congress is “singling out” federal employees in efforts to control the size of government would be to include pension reform in a systemic overhaul of all benefit programs, including Social Security. Such an initiative need not be rolled into one piece of legislation, but Congress should work in a bipartisan fashion to convey its all-encompassing nature to taxpayers and federal workers.

Some would call these conclusions unrealistic, but to NTU the current trajectory of the nation’s finances is unrealistic. Because of steps taken in the 1980s, Congress now has the *opportunity* of time, if not the *luxury* of time, on benefit reform. By using that time judiciously now, “retirement readiness” will be something that you and your colleagues can take pride in having accomplished for future generations of federal employees and taxpayers.

I thank all of you for bearing with these long remarks, and NTU stands ready to answer your questions or assist in any other way with your deliberations.

Mr. ROSS. Thank you, Mr. Sepp.

STATEMENT OF DAVID B. SNELL

Mr. Snell, you are recognized for 5 minutes for an opening.

Mr. SNELL. Thank you, Mr. Chairman and members of the committee. I am Dave Snell, director of retirement benefits at the National Active and Retired Federal Employees Association.

I am testifying here today on behalf of the Federal Postal Coalition, a group of nearly 30 organizations whose individuals span almost the entire spectrum of the Federal community. Thank you for the opportunity to testify on behalf of these nearly 5 million workers and retirees.

I would like to make three basic points today. First, retirement plans should be judged by whether they provide the income security needed to ensure that retirees do not suffer significant decline in their standard of living in retirement. Second, judged by that universal standard, current Federal retirement programs provide adequate but not overly generous retirement income. And, third, making permanent cuts to modest Federal retirement compensation of middle-class workers to pay for a 1-year payroll tax holiday is both unfair and unwise.

Federal workers did not enter public service to become rich, but they do face the same economic challenges as everyone else, including the need to prepare for retirement. Although they are paid, on average, 26 percent less than their private-sector counterparts, a modest retirement package helps to make up for part of that lower pay by helping to provide reasonable income security in their later years.

Unfortunately, recent legislative proposals have sought to unravel this basic bargain, unfairly singling out middle-class Federal employees for disproportionate sacrifice. Last month, the House passed legislation that would use permanent cuts to Federal retirement compensation of middle-class Federal and postal workers to pay for a 1-year payroll tax holiday. Federal employees should not have to pay for two-thirds of the cost of continuing the holiday. This is not shared sacrifice.

Federal families are no more immune from the challenges that come with tough economic times than any other working American family. They, too, have been experiencing declining home values, diminished savings, rising health insurance costs, escalating tuition for their children's college, spouses who have lost jobs, and grown children unable to find work after college.

Cuts to Federal retirement benefits and further pay freezes harm hardworking Federal employees and their families who are struggling with these challenges just like their private-sector counterparts. They also undermine the Federal Government's ability to attract and retain talent, threatening harm to a Federal civil service critical to meeting the increasingly complex and deeply important tasks that the American citizens need for them to do.

Rather than looking to eliminate the current Federal Employees Retirement System [FERS], or reduce its benefits, Members of Congress should look to the system as a model for private-sector reforms. The basic FERS annuity is modest. Taken together with the

other two components of the plan, Social Security and the Thrift Savings Plan, FERS provides an adequate retirement security.

H.R. 3630 would substantially reduce the retirement income security provided by FERS and effectively provide a pay cut for Federal employees currently under a pay freeze for the last 2 years. New employees would experience a 41 percent reduction in their deferred compensation, resulting in a new median annuity of only \$425 a month or \$5,098 annually. That is barely over a third of what a minimum-wage earner would make per year working 40 hours per week for \$7.25 an hour.

As much as anyone, our Nation's civil servants understand the constraints of the Federal budget and the gravity of the Nation's fiscal responsibilities. But we do not believe that it is fair to be singled out for sacrifice to pay for a tax holiday that some of us do not even receive.

Thank you again for the opportunity to share our views, and I am happy to take any questions.

[The prepared statement of Mr. Snell follows:]

FEDERAL-POSTAL COALITION

STATEMENT BY
DAVID B. SNELL
DIRECTOR OF RETIREMENT BENEFITS SERVICES
NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES
ASSOCIATION

ON BEHALF OF THE
MEMBER ORGANIZATIONS OF THE
FEDERAL-POSTAL COALITION:

| | |
|--|--|
| American Federation of Government Employees (AFGE) | National Association of Assistant United States Attorneys |
| American Federation of State, County and Municipal Employees (AFSCME) | National Association of Government Employees (NAGE) |
| American Foreign Service Association (AFSA) | National Association of Letter Carriers (NALC) |
| American Postal Workers Union (APWU) | National Association of Postal Supervisors (NAPS) |
| FAA Managers Association (FAAMA) | National Association of Postmasters of the U.S. (NAPUS) |
| Federally Employed Women (FEW) | National Council of Social Security Management Associations (NCSSMA) |
| Federal Managers Association (FMA) | National Federation of Federal Employees (NFFE) |
| International Association of Fire Fighters (IAFF) | National League of Postmasters |
| International Association of Machinists and Aerospace Workers | National Postal Mail Handlers Union (NPMHU) |
| International Federation of Professional and Technical Engineers (IFPTE) | National Rural Letter Carriers Association (NRLCA) |
| Laborers' International Union of North America (LIUNA) | National Treasury Employees Union (NTEU) |
| National Active and Retired Federal Employees Association (NARFE) | Organization of Professional Employees of the U.S. Department of Agriculture (OPEDA) |
| National Air Traffic Controllers Association (NATCA) | Professional Aviation Safety Specialists (PASS) |
| | Professional Managers Association (PMA) |
| | Senior Executives Association (SEA) |

BEFORE THE SUBCOMMITTEE ON THE FEDERAL
WORKFORCE, U.S. POSTAL SERVICE AND
LABOR POLICY,
COMMITTEE ON OVERSIGHT AND
GOVERNMENT REFORM,
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON
FEDERAL EMPLOYEES'
RETIREMENT SECURITY

JANUARY 25, 2012

Chairman Ross, Ranking Member Lynch and Members of the Subcommittee, thank you for inviting me to testify on behalf of the nearly five million federal and postal workers and annuitants represented by the national member organizations of the Federal-Postal Coalition. I appreciate the opportunity to discuss the retirement income security the federal government provides to those who dedicate their careers to public service.

The individuals we represent perform a diverse array of important jobs, from providing medical care for our veterans and delivering our mail to producing the intelligence needed to thwart terrorism and keep our airways safe. They did not enter public service to become rich, but they do face the same economic challenges as everyone else, including the need to prepare for retirement. Although they are paid, on average, 26 percent less than their private-sector counterparts according to impartial, nonpartisan experts,¹ a fair, but modest, retirement package helps to make up for part of that lower pay by helping to provide reasonable income security in their later years. With a median annuity under the Federal Employees Retirement System (FERS) of \$720 per month (\$8,640 annually), federal employees are not retiring rich.²

Unfortunately, recent legislative proposals have sought to unravel this basic bargain, unfairly singling out middle class federal employees for disproportionate sacrifice. Last month, the House passed legislation (H.R. 3630) that would use cuts to federal retirement compensation of middle class federal and postal workers to pay for a payroll tax *holiday*. It would offset over half of the cost of the holiday (\$65 billion over ten years out of a \$121 billion cost³) on the backs of less than 2 percent of the nation's workforce.⁴ This would add financial strain on top of the prospect of job loss through the sequestration process mandated by the debt ceiling agreement and the more than \$60 billion that the federal government has already saved by freezing federal employee pay for the past two years, which itself has permanently diminished long-term annuities for recent retirees.

¹ *Recommendations for Locality Pay in 2013*, Federal Salary Council, p. 2, <http://www.opm.gov/oca/tsc/recommendation11.pdf> (finding a 26.3 percent gap between comparable private sector jobs and federal jobs).

² *Statistical Abstracts for Fiscal Year 2010*, Federal Employee Benefits Programs, Office of Personnel Management, Exhibit R9.

³ The Congressional Budget Office (CBO) estimates that the bill's changes to federal retirement programs would reduce the deficit by \$38.5 billion over ten years, and the reduction in discretionary spending associated with the one-year extension of the two-year federal pay freeze would reduce the deficit by \$26.2 billion over ten years. In addition to the \$121 billion cost of the payroll tax holiday extension, the bill includes other provisions that increase the budget deficit. See *Letter from the Congressional Budget Office to the Honorable Dave Camp, Chairman, Committee on Ways and Means, House of Representatives*, December 9, 2011, <http://www.cbo.gov/ftpdocs/126xx/doc12609/hr3630.pdf>.

⁴ The Bureau of Labor Statistics estimated that the December 2011 labor force numbered about 154 million people. Employment Situation Summary – December 2011, <http://www.bls.gov/news.release/emp/sit.nr0.htm>. There are about 2.0 million non-postal federal employees and 575,000 postal employees. See Bureau of Labor Statistics Fact Sheet on Federal Employment, <http://www.bls.gov/oco/cg/cgs041.htm>; Postal Service Fact Sheet, <http://about.usps.com/who-we-are/postal-facts/welcome.htm>.

Federal families are no more immune from the challenges that come with tough economic times than any other working American family. They, too, have been experiencing declining home values and diminished savings, rising health insurance costs, escalating tuition for their children's education, spouses who have lost jobs and grown children unable to find jobs after college. Cuts to federal retirement benefits and further pay freezes harm hardworking federal employees and their families, who are struggling with these challenges just like their private sector counterparts.

Apart from the personal toll these cuts take on the dedicated civil servants I am here to represent, these actions undermine the federal government's ability to attract and retain the talent this nation needs to deal with the challenges we all face as a country. Shared sacrifice is fair, but singling out federal employees and retirees for disparate treatment threatens to do permanent harm to a federal civil service critical to meeting the increasingly complex and deeply important tasks of government. At a time when more is being asked of our government, the American public deserves an engaged and efficient workforce; not one Members of Congress paint as the source of our country's problems.

Attacks Based on Misguided Assumptions

The legislative attacks on federal employee retirement compensation seem to derive from: (i) the misguided assumption that most private sector 401(k) retirement plans provide adequate retirement income security – they do not; (ii) the related assumption that federal retirement benefits are overly generous – they are not; and (iii) the questionable opinion that instead of pursuing policies that would improve private sector retirement income security, Congress should pursue policies that diminish federal retirement income security – it should not.

The attacks also seem to derive substantially from the erroneous belief that federal employees are over-compensated compared to their private sector counterparts. The facts support the opposite conclusion. When comparing similar jobs, including levels of skill, experience and education, federal employees are paid less. I will discuss these issues later in my testimony.

What Constitutes Adequate Retirement Income?

Retirement plans are designed to provide income security in retirement to ensure that retirees do not suffer a significant decline in their standard of living. According to the RETIRE Project at Georgia State University, which has been calculating required retirement replacement rates for income for decades, a household with earnings of \$50,000 or more needs about 80 percent of pre-retirement earnings to maintain the same level of consumption after retirement.⁵ Individuals

⁵ See Munnell, Alicia, et. al., "How Much to Save For a Secure Retirement," Center for Retirement Research at Boston College, November 2011, Number 11-13, p. 2, available at <http://crr.bc.edu/images/stories/Briefs/11-13.pdf> (summarizing and citing Palmer, Bruce A. 2008. "2008 GSU/AON RETIRE Project Report." Research Report Series No. 08-01 (Jun). Atlanta, GA: J. Mack Robinson College of Business, Georgia State University, available at <http://rmictr.gsu.edu/Papers/RR08-1.pdf>).

need less money because: (i) they pay less in taxes because they no longer pay Social Security and Medicare payroll taxes, and they pay lower federal income taxes because – at most – only a portion of their Social Security benefits are taxable; (ii) they are no longer saving for retirement; and (iii) most pay off their mortgage before they retire, or soon thereafter.⁶

Both private sector and public sector retirement plans should strive to meet this goal of adequate retirement income. According to a February 19, 2011, article in *The Wall Street Journal*, the median household headed by a person age 60 to 62 with a 401(k) account had less than one-quarter of what is needed in that account to maintain its pre-retirement standard of living.⁷ Clearly, Social Security benefits and 401(k) accounts are not providing the retirement security Americans deserve. Instead of pursuing legislation that eliminates or reduces the defined benefit portion of the federal retirement plan, Congress should explore policy options to encourage better private sector retirement plans and/or greater savings rates across the private sector.

Federal Retirement Benefit Programs – Adequate, Not Overly Generous

Federal retirement programs can provide an adequate, but not overly generous, retirement income. Rather than looking to dismantle the program, Congress should view FERS as a model for private sector reforms.

Civil Service Retirement System (CSRS)

Federal and postal employees who began their service prior to 1984 are covered by the Civil Service Retirement System (CSRS). Employees contribute 7 percent of their pay to the Civil Service Retirement and Disability Fund (CSRDF), from which benefits are paid. CSRS annuities are equal to the average of the highest three consecutive years of pay *multiplied by* years of service *multiplied by* an accrual rate of 1.5 percent for each of the first five years of service, 1.75 percent for the 6th through 10th years of service, and 2 percent for each year of service after the 10th. The annuity is also protected from inflation by periodic cost-of-living adjustments, based on increases in the Consumer Price Index.

CSRS service is not covered by Social Security, and CSRS employees receive no matching contributions to their Thrift Savings Plan (TSP) accounts, though they are entitled to make tax-deferred contributions if they choose to contribute to the TSP. For career employees under CSRS, the annuity is their sole source of retirement income. As a group, these retirees collect a

⁶ Munnell, p. 1.

⁷ E.S. Browning, "Retiring Boomers Find 401(k) Plans Fall Short," *Wall Street Journal*, February 19, 2011, available at: <http://online.wsj.com/article/SB10001424052748703959604376152792748707356.html>.

mean monthly annuity of \$3,191 (\$38,292 annually) after an average of 32 years of service.⁸ The maximum benefit is limited to 80 percent of the average of the high-three years of salary.

That means that CSRS retirement annuities explicitly are limited to providing no more than what is considered the amount needed to prevent a significant decline in standard of living in retirement. However, that level assumes individuals will pay less in taxes because a significant portion of Social Security benefits are not taxable.⁹ While a portion of CSRS annuities are paid tax-free, because taxes were paid on the initial employee contribution, CSRS annuities receive less favorable tax treatment than Social Security benefits.

The disparate treatment does not end there. CSRS retirees who have worked at least 10 years in private sector employment, but fewer than 30 years, see their Social Security benefit reduced by up to \$374 per month through the Windfall Elimination Provision (WEP). In order to comport with the progressive nature of the Social Security system, the provision reduces the replacement rate of income on the first \$749 of average indexed monthly earnings to prevent middle and higher income earners from obtaining a replacement rate on their Social Security covered earnings similar to that afforded to lower income earners. Unfortunately, the provision goes too far, often unfairly reducing replacement rates for Social Security earnings income below what workers with similar income but not subject to WEP receive.

Furthermore, the Government Pension Offset (GPO) reduces the Social Security spousal benefit that a CSRS retiree would otherwise receive by two-thirds of the retiree's CSRS pension. This offset is intended to approximate Social Security's "dual entitlement rule," through which a spouse's Social Security earnings reduce the spousal benefit. But the GPO goes too far by assuming that two-thirds of a government employees' pension is equivalent to what he or she would have received through Social Security with a similar income. This overestimate causes an unfair reduction in the retirement benefit.

Finally, around one half-million current CSRS covered employees¹⁰ have not benefitted at all from the recent payroll tax holiday, as they are not covered by Social Security. Yet while all other Social Security participants receive a reduction in payroll taxes of 2 percent, H.R. 3630

⁸ *Statistical Abstracts for Fiscal Year 2010*, Federal Employee Benefits Programs, Office of Personnel Management, Exhibit R8.

⁹ If combined income is between \$32,000 and \$44,000 for a joint return or between \$25,000 and \$34,000 for an individual return, income tax may be payable on up to 50 percent of Social Security benefits. If combined income is more than \$44,000 for a joint return or more than \$34,000 for an individual return, up to 85 percent of benefits may be taxable. Combined income is defined as adjusted gross income plus nontaxable interest plus half of the Social Security benefit. Taxes and your Social Security Benefit, Social Security Administration, <http://www.ssa.gov/planners/taxes.htm>.

¹⁰ *Statistical Abstracts for Fiscal Year 2010*, Federal Employee Benefits Programs, Office of Personnel Management, p. 2 (estimating that about 16 percent of the approximately 2.7 million covered employees are covered by CSRS).

would effectively tax the pay of CSRS participants by another 1.5 percent through an increase in retirement contributions.

Federal Employees Retirement System (FERS) – A Model for Reform

Federal and postal employees who began their service on or after January 1, 1987, are covered by FERS. Signed into law by President Ronald Reagan, the creation of FERS was motivated by changes in law that placed new federal hires under Social Security, and it was designed to provide retirement benefits roughly equivalent to CSRS, but with greater job mobility. Today, FERS covers about 84 percent of active federal employees.¹¹ It provides a three-legged stool of benefits: (i) a basic defined benefit, which is significantly lower than the CSRS benefit; (ii) Social Security coverage; and (iii) the Thrift Savings Plan. Both Social Security benefits and Thrift Savings Plan (TSP) balances are portable to private-sector jobs.

The FERS basic defined benefit annuity is equal to the average of the highest three consecutive years of pay *multiplied by* years of service *multiplied by* an accrual rate of 1 percent if the employee has less than 20 years of service and retires prior to age 62 or 1.1 percent if the employee has 20 or more years of service and retires after age 62. While this annuity receives some inflation protection, it does not always receive the full amount of the increase in the Consumer Price Index as a cost-of-living adjustment.¹²

FERS employees contribute a total of 7 percent of pay to Social Security (6.2 percent without the payroll tax holiday) and to the CSRDF (0.8 percent). Agencies contribute an automatic 1 percent of salary into FERS employees' TSP accounts. Employees may receive an additional 4 percent of salary in matching contributions from their agency. Employee TSP contributions are tax-deferred; in effect, TSP is the federal employees' 401(k).

As part of the transition from CSRS to FERS, Congress also included a temporary supplemental benefit for FERS employees who retire before age 62 with at least 30 years of service. The "FERS annuity supplement" is equal to the estimated Social Security benefit that the individual earned while employed by the federal government and it is only paid until age 62.

Rather than looking to eliminate FERS or reduce its benefits, members of Congress should look to the system as a model for private sector reforms. Pension experts as diverse as David John, senior research fellow at the Heritage Foundation; Norma Stein, pension consultant and professor at Drexel University; and Leigh Snell of the National Council on Teacher Retirement have referred to FERS as a model.¹³ The basic benefit it provides is modest – a median of \$720 per month (\$8,640 annually), and replaces only 1 to 1.1 percent of the average of the highest-

¹¹ *Id*

¹² If the increase in the consumer price index (CPI) is 2 percent to 3 percent, FERS annuitants only receive a 2 percent cost of living adjustment. If the CPI is above 3 percent, FERS annuitants receive the CPI minus 1 percent.

¹³ Diane Rehm Show, NPR, 10/8/10.

three years of salary. This provides modest retirement income security that is not overly generous.

The major motivation for private sector firms moving away from defined benefit plans does not apply to FERS. Enhanced funding requirements and the instability of market returns led many private employers to alter their retirement plan structures. On the other hand, agencies fund the full normal cost of FERS benefits annually, as required by law. This means that the FERS system is financially sound and 100 percent pre-funded, with no unfunded liability. According to the Congressional Research Service, “[a]ctuarial projections indicate that the CSRDF will be able to meet its financial obligations in perpetuity.”¹⁴ In fact, the creation of FERS helped to shore up both the CSRDF and the Social Security system.

Legislative Proposals to Cut Federal Retirement Benefits Undermine Their Adequacy

H.R. 3630

H.R. 3630 would substantially reduce the retirement income security provided by FERS and effectively provide a pay cut for already underpaid federal employees (covered by both FERS and CSRS) who have experienced a pay freeze for the last two years. New employees (those with less than five years of service) would experience a 41 percent reduction in their deferred compensation because the bill would create a new system of retirement that would base retirement annuities on (i) the average of the highest five years of consecutive service instead of the highest three years, and (ii) reduce the accrual rate by more than 36 percent, to 0.7 percent. The resulting 41 percent reduction in FERS annuities would result in a new mean annuity of only \$425 per month (\$5,098 annually). That is barely over a third of what a minimum wage earner would make per year (\$15,080), working 40 hours per week for \$7.25 per hour.

New employees would also face a 3.2 percent increase in retirement contributions, while other current employees (covered by both CSRS and FERS) would face a 1.5 percent increase in retirement contributions over three years. While the tax holiday provides take-home pay increases for one year, federal employees get permanent pay cuts.

Additionally, H.R. 3630 eliminates the FERS annuity supplement, starting in 2013. This provision would result in a substantial reduction in early-retirement pay for federal employees who have dedicated their entire careers to public service and relied on receiving this supplement as part of their retirement compensation.

¹⁴ CRS Report, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs, January 5, 2011, at 12.

President's Proposal

Unlike H.R. 3630, President Obama has only proposed changes to federal retirement programs as part of a larger shared sacrifice to reduce deficits. The President has not proposed it as an offset for an extension of the payroll tax holiday. Specifically, the President has proposed increasing retirement contributions by 1.2 percent over three years and eliminating the FERS annuity supplement for new employees only, which avoids harming long-serving employees who have planned for retirement relying on the promise of the annuity supplement.

Federal Employees Are Already Undercompensated

While federal retirement benefits provide a fair balance between current and deferred compensation, independent studies suggest that the overall compensation package that federal employees receive is below that of comparable private sector employees. Cutting retirement benefits or increasing retirement contributions would exacerbate the situation. Data collected by the Bureau of Labor Statistics (BLS) shows that federal workers are paid approximately 26 percent less, on average, than their private-sector counterparts.¹⁵ The BLS makes apples-to-apples comparisons that account for differences in occupation, education, experience, skill level, scope of responsibility, length of service, age, geographic location and special requirements such as exposure to personal danger.

In other words, the BLS distinguishes between workers such as a teenage Dairy Queen's cashier in a rural town and an experienced attorney in New York City; and even between a junior attorney who writes pro forma wills and a senior attorney leading billion-dollar litigation. In general, the federal workforce consists of more professionals and managers, and federal employees have more education, are older, have more experience and perform jobs that require more skill and have more responsibility than the average private-sector worker.

We do recognize that the BLS data does not include retirement benefits; however, the cost to federal agencies of providing the FERS annuity is 11.7 percent of pay per year.¹⁶ The cost to the government of providing the CSRS annuity is 18.8 percent of pay per year.¹⁷ These amounts do not bridge the 26 percent gap. Furthermore, the private-sector compensation used as a comparison would need to be increased upwards by the cost of retirement benefits to similarly-

¹⁵ *Recommendations for Locality Pay in 2013*, Federal Salary Council, p. 2, <http://www.opm.gov/oca/fsc/recommendation11.pdf> (finding a 26.3 percent gap between comparable private sector jobs and federal jobs).

¹⁶ CRS Report, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs, January 5, 2011, at 11.

¹⁷ *Id.*

situated private-sector employers.¹⁸ According to the National Compensation Survey, 86 percent of private-sector employers with 500 or more workers offered access to a retirement plan in addition to Social Security.¹⁹ Every Fortune 100 company offered access to a retirement plan.²⁰ Furthermore, private sector companies have the ability to offer forms of profit-sharing, such as stock options. This is additional compensation that federal employees cannot receive. Also, it represents the prospect of substantial financial reward, which the federal government will never be able to provide.

Maintaining a Qualified Workforce

American citizens need a competent, efficient federal workforce. While there may be ideological disagreements regarding the scope of government, those disagreements should not endanger the quality of the federal workforce, regardless of its size. Veteran's Administration doctors and nurses, Department of Justice prosecutors and Federal Court judges, NASA engineers and NIH scientists, high-qualified intelligence officers and diplomats, and senior executives all require adequate compensation. The federal government underpays these individuals, but provides a modicum of security through its benefits package. Many of these individuals forego the prospect of riches in the private sector to engage in public service, whether by caring for veterans or preventing terrorism or otherwise. By undermining their compensation, we risk hindering our ability to recruit and retain the best and the brightest.

Conclusion

Federal retirement programs provide a fair balance between salary and retirement benefits, an adequate mix of guaranteed income through defined benefit annuities and individual flexibility through defined contribution savings. Instead of making them a target for cuts, they should provide a model for other retirement programs.

Federal employees ensure that the food we eat and the water we drink are safe; they protect our borders and our airways; they provide us Social Security benefits and deliver our mail; they take criminals off our streets and keep them behind bars; they care for our veterans and provide the intelligence needed to thwart terrorism; day after day, they perform the tasks needed to maintain the stability and security of our country.

¹⁸ On average, about 5 percent. See *Employer Costs for Employee Compensation – September 2011*, Bureau of Labor Statistics News Release, Table A, available at <http://www.bls.gov/news.release/pdf/cecc.pdf> (ratio of 3.6 to 70.5 = 5 percent). But again, it is important to compare benefits for similar jobs.

¹⁹ *Employee Benefits in the United States – March 2011*, Bureau of Labor Statistics News Release, Table 1, available at: <http://www.bls.gov/news.release/pdf/ebs2.pdf>.

²⁰ See Towers Watson, "Prevalence of Retirement Plan by Type in the Fortune 100," June 2010, available at: <http://www.towerswatson.com/united-states/research/2106>.

Federal employees do not ask for much, as they demonstrate their willingness to sacrifice every day on the job. As much as anyone, our nation's civil servants understand the constraints of the federal budget and the gravity of the nation's fiscal responsibilities. But we do not believe it is fair to be singled out for sacrifice to pay for a tax holiday that some of us do not even receive.

Thank you again for the opportunity to share our views with you and I am happy to answer any questions you may have.

Mr. ROSS. Thank you, Mr. Snell.

I will now recognize myself for 5 minutes for questioning. And I am going to go to the heart of what I think is facing us here, and that is the congressional pension system.

Do you, each one of you, believe that Congress should bring its retirement rules in line with those of most Federal employees? And I will start off with you, Mr. Grimes. And why or why not? Speaking specifically of Congress.

Mr. GRIMES. Honestly, the administration would not have a view on whether congressional pensions should be the same as the rank-and-file. Thank you.

Mr. ROSS. Dr. Biggs.

Mr. BIGGS. In general, yes.

Mr. ROSS. And any follow-up, I mean, as to why or why not?

Mr. BIGGS. Well, with congressional pensions, there are some specific issues that you are looking at, in terms of short tenure and not—well, presumably, or supposedly, not as much job security. But, in general, you can address those through a defined-contribution plan, where there is an employee contribution and an employer match. If the Member of Congress leaves, they can take that with them.

Working that circumstance into a defined-benefit plan gets tricky. The defined-benefit plan, if you look at what is called the normal cost of pensions under FERS for Members of Congress, is much, much more generous than the ordinary FERS for Federal employees, which in turn is much, much more generous than what a typical private-sector worker gets. So I think clearly some scaling down makes sense.

Mr. ROSS. Mr. Sepp.

Mr. SEPP. Certainly. And I would just point out one other rather interesting statistic concerning the normal cost factor, in other words the agency contribution that is set aside for Members of Congress. That actually has been rising at a somewhat faster rate than what you would find for the rank-and-file contribution, which actually tends to fluctuate between 11 and 12 percent. It was about 15 percent back in 1997, now it is over 18 percent for lawmakers.

Mr. ROSS. Mr. Snell.

Mr. SNELL. Mr. Chairman, our coalition believes that Members of Congress should be on an equal footing with all other Federal retirees in the matter of their retirement.

Mr. ROSS. Thank you.

Mr. Grimes, I know it is very important that OPM makes sure that the Federal Government recruits and retains and rewards Federal employees. And that is all part and parcel, I think, of what needs to be done in order to keep our human resources at their best.

Now, taking us from a defined-benefits plan to a defined-contributions plan, will that in any way, in your opinion, impact the recruitment and retention of Federal employees?

Mr. GRIMES. Our employee surveys show that benefits provided by the Federal Government for employment are essential for recruiting and retaining high-quality employees.

We believe that the President's proposal to increase contributions over 3 years by the amount of 1.2 percent is an adequate response in this time of difficulty.

Mr. ROSS. Okay. But do you think it is—is it going to change the ability for the Federal Government to retain and recruit if we move toward a defined-contribution plan as opposed to a defined-benefit plan?

Mr. GRIMES. Well, back when FERS was implemented, of course we did add that component.

Mr. ROSS. Right.

Mr. GRIMES. And I don't know that our recruitment strategy changed at that time. But time would have to tell.

Mr. ROSS. Dr. Biggs, in terms of the private sector versus the public sector, I think we have seen Fortune 500 companies rarely, if at all, provide a defined-benefits plan. In fact, I think—and let me know if this is true or not—they are moving toward an almost all defined-contribution plan, which is essentially a 401(k). Is that your understanding?

Mr. BIGGS. That is correct. Defined-benefits plans are dying out in the private sector, and there is a variety of reasons, one of which, though, is the ability to recruit and retain.

Defined-benefit plans have an very odd, sort of, path of benefit accumulation over a worker's career. For a long period of time, under defined-benefit plans, an employee accumulates very little of what you call pension wealth. That tends to shoot up very quickly later in their career and then falls down again once they reach their 60's. I would refer you to the work from Michael Podgursky of the University of Missouri, who has looked at this very closely with reference to teachers.

What that means is a defined-benefit plan is worth very, very little to short-term employees. The young, mobile employees you might wish to recruit, a defined-benefit plan is essentially worthless to them. Also, you have older employees who you wish to keep on the job later, continuing employment often means they lose money under a DB plan. So you get this pushing and pulling effect which often works contrary to what you want to do in terms of employee recruitment and retainment.

Mr. ROSS. Mr. Sepp, from your research, are we moving toward, even in government pensions, whether it be municipal, county, or State pensions, from a defined-benefits plan to a defined-contributions plan?

Mr. SEPP. I would say we are. And a lot of it is not by choice, it is by necessity. If you take a look, for example, at Rhode Island's problems. The treasurer there, Gina Raimondo, had to come up with a plan that has much heavier reliance on defined-contribution systems to finance the whole retirement structure.

Mr. ROSS. Because they just can't afford it.

Mr. SEPP. Affordability is a problem. Plus, of course, in the State and local pension plans, you have the additional factor of investments. In other words, the Federal Government doesn't invest DB assets—

Mr. ROSS. Right.

Mr. SEPP [continuing]. In markets, whereas State and local governments often do. They have had a lot of volatility there.

Mr. ROSS. I follow you.

I see that my time is up. I will now recognize the ranking member, Mr. Lynch from Massachusetts, for 5 minutes for questioning.

Mr. LYNCH. Thank you, Mr. Chairman.

I do note here, we have a MetLife—a 2008 MetLife study that indicates that workers are more likely to consider pension benefits as an important factor in remaining with a company. And it would seem to refute at least some of what we are hearing there from the panel. Is there any real rebuttal on that?

MetLife is saying that—let me see if I can find it—72 percent of employees cite retirement benefits—defined-benefit retirement benefits as an important factor in their loyalty to their employer. And they additionally found—there are several others studies that show defined-benefit plans keep workers at the job longer than workers without pensions and that firms with defined-benefit pensions experienced lower turnover rates than non-pension firms.

Do you find that surprising?

Mr. BIGGS. I am not sure that finding is actually inconsistent with the points that I just made, in terms of the incentives of defined-benefit pensions.

It is certainly true that a mid-career employee under a DB plan who quits and shifts to another job, because the DB plan isn't portable, will often leave literally hundreds of thousands of dollars on the table by doing that. So a mid-career—

Mr. LYNCH. That would be a disincentive, wouldn't it?

Mr. BIGGS. Sure. A mid-career employee, therefore, has a strong disincentive to leave.

What that often means in public service, though, is if you have somebody—this applies more to the State and local level—someone who is burned out in their job and would like to leave, they effectively are prohibited from doing it by the effects of the DB plan.

There is, I think, strong empirical evidence that public employees respond to the push-and-pull incentives of defined-benefit pension plans. For instance, if you have a—

Mr. LYNCH. Okay. I don't want you to eat up all my time.

Mr. BIGGS. Sure.

Mr. LYNCH. Thank you.

I also notice that, you know, there is a lot of comparison going on about private-sector defined-benefit plans. One thing I did notice, that 96 percent of defined-benefit plans in the private sector are fully paid for by the employer, so that there is only 4 percent of these defined-benefit plans that—I mean, 96 percent of them, the employer covers everything. Employees don't have to contribute a nickel, not a dime, nothing. And we are comparing them to, you know, the Federal plan that requires employees to contribute over their lifetime—a fairly significant amount over their career.

So I having a little bit of trouble comparing a private-sector plan that requires no contribution, employer covers everything—which is 96 percent of those plans—and the plan that we are talking about here today. Any thoughts on that?

Mr. BIGGS. I think my answer to that would be that very, very few private-sector employees today, particularly newly hired private-sector employees, have DB pensions. I noted in my testimony that most private-sector DB plans are not contributory; there isn't

an employee contribution. But the fact is simply that very few private-sector workers have those. If you look at—

Mr. LYNCH. Would they be larger firms or—the problem is, you know, you try to compare—I mean, what is it, 8 million Federal employees, and then you are trying to compare that to Al's Deli. You know, how do you make that comparison?

Mr. BIGGS. They would tend to be more unionized firms—heavy industry, airlines, auto, things of that nature. In my testimony, I focused based on worker type. I compared two workers who were classified by the Bureau of Labor Statistics as professional management or related workers—the white-collared, skilled workers that roughly approximate where Federal employees are.

If you adjust for firm size, you are likely to find somewhat larger pension contributions. But there are very few newly hired private-sector workers in any type of firm who are being offered a DB pension. It is just very unusual.

Mr. LYNCH. Right. But, as you said, if you are comparing defined-benefit plans to defined-benefit plans, you probably should look at firms that are similar, right? As opposed to—new firms are generally small when they start. You know what I mean?

Mr. BIGGS. I am not talking about firms. I am—

Mr. LYNCH. So you are already—

Mr. BIGGS. Even newly hired employees at large firms.

Mr. LYNCH. I am going to take back my time, if I could. Thanks.

Actually, Mr. Chairman, I will yield back. I only have a few seconds left. Thank you.

Mr. ROSS. Thank you.

The gentleman from Illinois, Mr. Davis, is recognized for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman. I want to thank you for yielding.

I would like to go back to a remark that was made by one of the witnesses a few minutes ago that I believe deserves some highlighting. Mr. Snell from the Federal Postal Coalition, I believe it was you that said that Federal workers do not enter public service to become rich. And I will repeat that: Federal workers do not enter public service to become rich.

In fact, I believe that the average Federal worker enters these jobs out of the desire to serve their country and to make a difference on behalf of others. That is a point that I think has been overshadowed a great deal in recent years.

For the most part, Federal workers are middle-income, hard-working Americans who perform critical jobs and duties day-in and day-out. To suggest that they do not deserve a retirement annuity sufficient enough to cover their expenses in the later years of their life is pretty much as uncompassionate as I think we can get.

Let me ask each of you if you are aware that the majority of Federal employees work in cities and communities outside the District of Columbia. You are aware of that?

Mr. SNELL. Yes.

Mr. DAVIS. Well, in fact, I believe that each and every one of us on this podium, as well as on the panel, know Federal employees and postal employees in my congressional district who work with

the idea that after retirement they ought to be able to at least take care of their basic expenses.

I have a large number of Federal employees in my congressional district, which is the Seventh Congressional District of Illinois, which is a major metropolitan area. And, Mr. Snell, let me ask you, what do you think are some of the potential negative economic consequences in congressional districts such as ours if Congress freezes Federal workers' pay for an additional year, as required based on H.R. 3630?

Mr. SNELL. Thank you, Congressman.

That is—the implications on freezing it for another year, workers' pay, it will substantially reduce their ability to help feed their families, send their kids to school. It will also have an impact on their contributions to their Thrift Savings Plan or other retirement nest eggs that they may have.

So I think what we are talking about by another freeze is again penalizing middle-class Federal workers, postal workers, to help solve a budget problem they didn't commit. And, I mean, they didn't have—they are not responsible for.

Mr. DAVIS. Thank you.

Mr. Biggs, in your testimony, you mentioned that Federal work force pay is comparable to pay in the private sector for similar work. However, I would like to ask if you and the other witnesses are aware of a recent study by the Bureau of Labor Statistics that found that there is actually a 26 percent pay gap between Federal workers and their similarly skilled and educated private-sector counterparts.

Mr. BIGGS. I am well aware of that study.

I will say, opinion is divided on Federal pay. On one side are the studies done for the Federal pay agent, which find these large pay gaps for Federal employees. On the other side are effectively three decades of peer-reviewed academic research, which finds a very different result using different—a variety of different methods.

The problem with the pay-agent result is they try to compare jobs to jobs. They say, what does a Federal job pay relative to a similar private-sector job? They don't look at the people who fill those jobs. The Congressional Budget Office, over 20 years ago, along with academic research, has shown that for any given job the Federal Government tends to place in that job an individual with less experience and less education than the private sector would. Once you account for that, this 26 percent pay gap simply disappears.

So there is a reason why those studies from the pay agent are not taken particularly seriously by academics who look at these issues.

Mr. DAVIS. Mr. Chairman, let me ask unanimous consent to include in the record the memorandum from the Federal Salary Council that highlights the 26 percent pay gap found by the Bureau of Labor Statistics.

Mr. ROSS. Without objection, so ordered.
[The information referred to follows:]

Federal Salary Council

1900 E Street NW.
Washington, DC 20415-8200
November 22, 2011

MEMORANDUM FOR: THE PRESIDENT'S PAY AGENT
HONORABLE HILDA L. SOLIS
HONORABLE JACOB J. LEW
HONORABLE JOHN BERRY

SUBJECT: Level of Comparability Payments for January 2013 and Other
Matters Pertaining to the Locality Pay Program

As authorized by the Federal Employees Pay Comparability Act of 1990 (FEPCA), we present our recommendations for the establishment or modification of pay localities, the coverage of salary surveys conducted by the Bureau of Labor Statistics (BLS) for use in the locality pay program, the process of comparing General Schedule (GS) pay to non-Federal pay, and the level of comparability payments for January 2013.

Bureau of Labor Statistics Surveys and Pay Gap Methodology

We reviewed comparisons of General Schedule and non-Federal pay calculated using Bureau of Labor Statistics salary survey data collected under the National Compensation Survey (NCS) program and pay comparisons using a model developed by BLS for using Occupational Employment Statistics (OES) data in the locality pay program. All of the pay gaps (i.e., percentage difference between base GS rates and non-Federal pay for the same levels of work) were calculated using the same general weighting and aggregation methods in use since 1994, when locality pay was first implemented. The BLS survey data, both OES and NCS, cover establishments of all employment sizes.

NCS Survey Results

NCS data this year include all of the survey improvements designed for the program. This may be the last year NCS data will be available because BLS has canceled much of the survey as it migrates to using the OES model.

Attachment 1 shows the pay gaps for each current locality pay area using NCS data for both 2010 and 2011 and the rate of change between 2010 and 2011.

Changes in NCS Pay Gaps Since 2010

The average NCS pay gap for the 34 existing locality pay areas is 51.37 percent in 2011, compared to 48.51 percent in 2010, an increase of 2.86 points. Only Miami and Washington, DC, show small

decreases. This overall increase is in line with general labor market trends. Private sector pay increased about 1.6 percent between March 2010 and March 2011 as measured by the Employment Cost Index (ECI) for wages and salaries, private sector workers, while Federal employees did not receive statutory pay increases in 2011 due to the 2-year statutory pay freeze. While GS pay gaps are affected by many factors, an average pay gap of approximately 49 percent in 2010 could be expected to grow to about 51 percent at a 1.6 percent growth rate, given that GS employees did not receive a base pay increase in 2011. Note that these pay gaps exclude current locality pay rates received by GS employees. Since locality pay is paid on base GS rates, we exclude locality pay when measuring pay gaps. Factoring in the current average locality pay rate of 19.85 percent would reduce the average 2011 pay gap to about 26.3 percent, compared to 24.05 percent for 2010.

OES Survey Results

As we reported last year, BLS has developed a model to estimate the impact of work level on salary by combining OES and NCS data so that OES data could be used in the locality pay program. BLS' model looks at how salaries vary by work level compared to occupational average salaries so that OES occupational average salaries can be used to estimate salaries by work level. BLS can apply the model to locations where it has not conducted an NCS program survey.

Over the last several years, we reviewed OES test data for the locality pay areas and certain other locations. **Attachment 2** shows 2010 and 2011 pay gaps based on the OES model for the existing locality pay areas and certain other locations. We also show the rate of change since last year.

Changes in OES Pay Gaps Since 2010

We are concerned about how the OES model gaps changed since last year. Overall, the pay gaps increased by 10.6 points, with 25 of the 44 locations shown increasing by more than 10 points. This result is out of line with other economic indicators, including the results of the NCS surveys. We are particularly concerned that most of the areas are substantially affected by large increases in the estimated salaries for professional and administrative jobs, particularly at grades GS-12 and GS-13.

While we have test results for the new OES model covering 2007 through 2009 and a production run for 2010, this is the first time the model has produced such results. We explored several possible causes of these large increases.

Omission of NCS Wage Sample—the Primary Cause of Changes in OES Pay Gaps

BLS' establishment sample for the NCS is divided into a "wage" sample and an "index" sample. The wage sample represents an expanded survey base for the locality pay program; however, future NCS surveys may no longer include the wage sample. In other words, the wage sample is the part of the NCS program that has been canceled. The index sample is used for the Employment Cost Index and will continue. This is the part of the NCS sample that may be used in the future to derive the impact of grade level on pay for the OES model. BLS tested the impact on the OES model of including only a portion of the NCS sample during model development and found the sample reduction did not significantly affect the results for the test year. For this year's OES model and first OES data delivery, BLS did not use the wage sample, since it will not exist in the future unless

it is restored, as we recommend. However, BLS did use the entire wage and index samples for the NCS delivery. It appears that average salaries for professional and administrative jobs are substantially higher in the index sample than in the wage sample this year, and this is the main reason for the large increases in OES pay gaps.

We asked BLS to recompute the OES model using the full NCS sample—wage and index. Using the full NCS sample, the pay gaps are on average 4.89 points lower than the results based solely on the “index” sample, thus explaining about 46 percent of the noted 10.6 point change in the average pay gap since last year. While using the NCS full sample would likely fix the problem we encountered this year, it may reoccur next year if the “wage” sample is no longer collected.

If we use the 2.86 point increase in the NCS pay gaps as a benchmark of rate of change due to labor market changes since last year, 4.89 plus 2.86 points of the 10.6 point increase have been explained—about 73 percent. **Attachment 2** also shows the impact of the wage/index sample by area.

Recommendations on OES Model

We plan to continue working with OPM and BLS on the OES model to enhance our understanding of the model. Until the model is well understood, we recommend the President’s Pay Agent (Pay Agent) use NCS data for existing locality pay areas.

For establishing new locality pay areas in Albany, Albuquerque, Bakersfield, Charlotte, and Harrisburg, we recommend using aged 2010 data from the OES model as shown in **Attachment 3**. There are about 24,000 GS employees in these new areas. We recommend no action be taken for Virginia Beach at this time because it was not covered by the earlier test results.

We also recommend locations in the Rest of U.S. locality pay area be rank ordered by GS employment and that the Pay Agent ask BLS to provide OES model data for all metropolitan areas with 2,500 or more GS employees in time for evaluation in 2012. If OES model data are usable in 2012, we will develop recommendations on how many and which additional locality pay areas should be approved for implementation in 2014 and beyond. Since a small percent of payroll is usually approved for locality pay increases, implementing many additional areas at once may not be feasible, even if warranted by survey findings.

Reinstatement of NCS

The Council originally requested the OES model be developed as a way to allow additional metropolitan areas to be considered for establishment as independent locality pay areas, not as a replacement for the NCS program. We believe the NCS provides critical information to enhance the accuracy of comparisons between Federal pay and pay in the non-Federal sector. Considering that the GS payroll exceeds \$80 billion annually, we believe the \$8 million annual cost of the wage sample portion of NCS to be a wise and prudent expenditure (0.01% of payroll cost). NCS provides robust, reliable, and high quality non-Federal pay data, improving our ability to appropriately administer Federal pay in a viable, sound, and transparent manner. Accordingly, we recommend the Pay Agent reinstate the full National Compensation Survey program.

Locality Rates for 2013

Based on the NCS survey results for locality pay in 2013, the overall gap between base GS average salaries (excluding any add-ons such as GS special rates and existing locality payments) and non-Federal average salaries surveyed by BLS in locality pay areas was 51.37 percent as of March 2011. The amount needed to reduce the pay disparity to 5 percent (the target gap) averages 44.16 percent. The proposed comparability payments for 2013 for each existing locality pay area are shown in **Attachment 4**. Locality rates for new areas are shown in **Attachment 3**.

These locality rates would be in addition to the 1.2 percent increase in General Schedule base rates under 5 U.S.C. 5303(a). This provision calls for increases in basic pay equal to the percentage increase in the Employment Cost Index, wages and salaries, private industry workers, between September 2010 and September 2011, less half a point. The ECI increased 1.7 percent in September 2011.

Requests to Be Included in Existing Pay Areas or to Establish New Locality Pay Areas

OPM staff had contacts from employees in 30 locations by email, telephone, or letter since 2010:

| | | |
|--------------------------------------|---------------------------|------------------------------------|
| Albany, NY | Allentown, PA | American Samoa |
| Ames, IA | Atlantic County, NJ | Austin, TX |
| Berkshire County, MA | Burlington, VT | Butte County, CA |
| Charlotte, NC | Charlottesville, VA | Clallam and Jefferson Counties, WA |
| Claremont, VT (White River Junction) | Columbus, GA | Edwards, CO |
| Franklin County, ME | Granville County, NC | Guam |
| Jefferson County, NY | Lansing, MI | Mono County, CA |
| Nashville, TN | Northern Marianna Islands | Pitkin County, CO |
| Portland, ME | Savannah, GA | Tampa, FL |
| VA Clinics in Ohio | Vermont | Virginia Beach, VA |

We also received letters or petitions from employees or groups representing Albany, NY; Atlantic County, NJ; Berkshire County, MA; Claremont, NH-VT; Granville County, NC; and Virginia Beach, VA. Employees from several of these locations provided oral testimony at Council meetings. In summary, employees in Albany request it be made a separate locality pay area, employees in Atlantic County seek to be moved from the Philadelphia pay area to the New York pay area, employees in Berkshire County request being included in the Hartford locality pay area, employees in Claremont seek to be included in the Boston locality pay area, employees in Granville seek to be added to the Raleigh locality pay area, and employees in Virginia Beach seek to be evaluated as a separate area.

We propose changes in how locality pay areas are defined later in this recommendation. We have already covered the disappointing results from the 2011 OES model for implementing new locality

pay areas and explained how new areas can be established for Albany, Albuquerque, Bakersfield, Charlotte, and Harrisburg using 2010 test results. Since reliable 2011 data on non-Federal pay levels are not available for additional new areas and we are proposing a number of changes in how locality pay areas are defined, we suggest the Pay Agent not take separate or additional action on any of the areas that contacted OPM. We recommend action only for locations where we have data from last year's OES model that can be used to establish a new locality pay area or in locations that meet the proposed requirements to be included in a separate locality pay area. Locations where we do not have OES data for 2010 and locations that do not meet the proposed criteria must remain in the Rest of U.S. locality pay area in 2013.

Criteria for Areas of Application

We also reviewed the current criteria for adding adjacent locations to an existing locality pay area. We previously recommended these criteria, the President's Pay Agent approved them, and they have been modified over the years. The current criteria are based on the number of employees covered by the GS pay system and the level of commuting to/from the adjacent area and the Metropolitan Statistical Area (MSA) or Combined Statistical Area (CSA) comprising the locality pay area.

Last year, we concluded that commuting is the most relevant criterion and measures the degree of economic linkage among areas. The GS employment criterion has always been problematic and hard to justify because it is not based on an economic linkage among geographic locations. Accordingly, the Council recommended that the GS criteria be dropped. Unfortunately, the Pay Agent did not approve this recommendation for implementation in 2012, mainly because of the 2-year pay freeze.

We believe our recommendations last year continue to be appropriate and resubmit our 2010 proposal for implementation in 2013, after the 2-year pay freeze expires. Under this proposal, we would continue to use a threshold of 7.5 percent employment interchange rate (commuting) for evaluating adjacent metropolitan and combined statistical areas for inclusion in an adjacent locality pay area. We also recommend adopting a new single county commuting criterion of 20 percent (instead of 7.5 percent) for evaluating adjacent counties that are not part of a multi-county MSA or CSA. We recommend increasing the commuting criterion for single counties in consideration of dropping the GS employment criterion and to insure counties are included only when there is substantial commuting to/from the pay area which would seriously affect Federal agency recruitment and retention of employees.

New Commuting Pattern Data

We also have new commuting pattern data available this year. The data were collected as part of the American Community Survey in 2006-2008. The current release includes only counties in the United States with populations of more than 20,000 persons, and the full data set will not be available until 2013. While some counties are missing from the data, which could affect the results, the data are more current than the 2000 census data we have been using and we recommend using the new commuting pattern data now.

Micropolitan Areas

The Claremont CSA (White River Junction, VT) is composed of four counties (Orange and Windsor Counties, VT; and Grafton and Sullivan Counties, NH) in two micropolitan areas. It does not contain any metropolitan areas. The Pay Agent stated it would not use micropolitan areas in the locality pay program unless associated with a metropolitan area. (A metropolitan area includes at least one urbanized area with a population of 50,000 or more. A micropolitan area includes at least one urbanized area with a population of at least 10,000 but less than 50,000.) If considered as a CSA, the entire Claremont CSA would pass the new criteria. Only Grafton and Sullivan Counties would pass the recommended single county criteria. If considered separately, the two counties in Vermont are not even adjacent to the Boston locality pay area. Nevertheless, we renew our recommendation made in 2010 that the Claremont area be treated as a single unit. Likewise, there are two other micropolitan areas affected by our recommendations shown in **Attachment 5**. We believe the distinction between an area with a population core of perhaps 50,001 (a metropolitan area) and one with a population core of 49,999 (a micropolitan area) is artificial and that all areas identified by the Office of Management and Budget (OMB) should be treated the same under the locality pay program.

We note that several locations would pass the current criteria if the new commuting pattern data were used or all GS employees counted. This includes Portland, ME, and Granville County, NC. Some employees in the Portland, ME, area were retained in the Boston locality pay area when new MSA definitions were implemented in 2005. Likewise, most employees in Granville County, NC, are already included in the Raleigh locality pay area under the Federal facilities that cross county lines criteria. We recommend the Pay Agent not exclude these employees when evaluating these areas for inclusion in an adjacent locality pay area under the current criteria.

Summary of Pay Area Boundaries

These criteria recommendations would move about 15,400 GS employees in 23 metropolitan areas and about 4,000 GS employees in 97 counties into an existing locality pay area. The affected areas are listed in **Attachments 5 and 6**.

New Core-Based Statistical Areas

Under Office of Personnel Management (OPM) regulations, locality pay area boundaries change automatically when OMB adds counties to Core-Based Statistical Areas (CBSAs). OMB periodically makes substantial revisions in CBSAs and is planning a major update for 2013. Prior to the 2003 CBSA update, OPM temporarily changed its regulations so that locality pay areas would not change with the new CBSA definitions. This provided time for the Council and the Pay Agent to review the new CBSA definitions for use in the locality pay program. We believe this is a good practice and recommend OPM revise its regulations again to delink from CBSA definitions for the 2013 update.

Summary of Locality Pay Areas for 2013

In summary, we recommend retaining the 34 existing locality pay areas, adding new locality pay areas for Albany, NY, Albuquerque, NM, Bakersfield, CA, Charlotte, NC, and Harrisburg, PA, and amending the criteria for evaluating areas adjacent to existing locality pay areas for inclusion in the pay area.

By direction of the Council:

SIGNED
Stephen E. Condrey, Ph.D.
Chairman

Attachments

Attachment 1

| National Compensation Survey Pay Gaps March 2011 and March 2010 | | | | |
|---|----------------------------|------------------|------------------|--------|
| AREA | March 2011 GS Base Payroll | 2011 NCS Pay Gap | 2010 NCS Pay Gap | Change |
| Anchorage (2005)* | \$484,514,023 | 58.00% | 55.39% | 2.61% |
| Atlanta | \$1,793,721,540 | 48.21% | 46.13% | 2.08% |
| Boston | \$1,647,263,198 | 61.33% | 56.51% | 4.82% |
| Buffalo | \$303,385,070 | 42.23% | 36.66% | 5.57% |
| Chicago | \$1,366,489,414 | 58.67% | 55.67% | 3.00% |
| Cincinnati | \$457,677,756 | 43.62% | 39.58% | 4.04% |
| Cleveland | \$633,832,948 | 43.84% | 41.79% | 2.05% |
| Columbus | \$567,202,360 | 42.46% | 40.77% | 1.69% |
| Dallas | \$1,246,149,515 | 52.15% | 49.14% | 3.01% |
| Dayton | \$736,844,613 | 42.09% | 35.93% | 6.16% |
| Denver | \$1,253,550,161 | 51.69% | 49.94% | 1.75% |
| Detroit | \$829,737,966 | 51.17% | 46.92% | 4.25% |
| Hartford | \$285,834,666 | 64.77% | 61.56% | 3.21% |
| Honolulu* | \$898,027,005 | 45.92% | 39.34% | 6.58% |
| Houston | \$882,302,985 | 50.97% | 50.62% | 0.35% |
| Huntsville | \$791,112,530 | 50.32% | 45.65% | 4.67% |
| Indianapolis | \$541,862,549 | 39.63% | 35.64% | 3.99% |
| Los Angeles | \$2,238,985,443 | 61.83% | 58.02% | 3.81% |
| Miami (2010 FSC version) | \$864,170,325 | 49.42% | 51.10% | -1.68% |
| Milwaukee | \$217,725,602 | 44.62% | 38.72% | 5.90% |
| Minneapolis | \$476,095,848 | 53.95% | 51.92% | 2.03% |
| New York | \$3,208,239,240 | 68.63% | 65.62% | 3.01% |
| Philadelphia | \$1,701,012,166 | 51.76% | 49.83% | 1.93% |
| Phoenix | \$548,320,318 | 48.69% | 43.93% | 4.76% |
| Pittsburgh | \$431,108,668 | 37.80% | 35.13% | 2.67% |
| Portland | \$643,900,996 | 55.59% | 51.69% | 3.90% |
| Raleigh | \$888,607,985 | 41.33% | 35.38% | 5.95% |
| Rest Of US* | \$34,005,800,537 | 35.87% | 30.95% | 4.92% |
| Richmond | \$574,916,783 | 39.13% | 34.98% | 4.15% |
| Sacramento | \$464,889,599 | 56.29% | 54.55% | 1.74% |
| San Diego | \$1,373,402,558 | 65.23% | 56.40% | 8.83% |
| San Jose | \$1,640,123,693 | 75.56% | 72.55% | 3.01% |
| Seattle | \$1,633,338,558 | 59.55% | 52.85% | 6.70% |
| Washington, DC | \$21,528,316,542 | 70.05% | 71.60% | -1.55% |
| Total/Averages | \$87,158,463,160 | 51.37% | 48.51% | 2.86% |

* Anchorage and Honolulu payroll are whole State and RUS includes nonforeign and some locations shown separately elsewhere.

| 2011 Occupational Employment Statistics Pay Gaps | | | | | | |
|--|-------------------------------|----------------------------|-------------|--------|-------------------------------|--------------------------------|
| AREA | March 2011 GS Base Payroll | 2011OES Index Sample | 2010 OES | Change | 2011OES full NCS sample | Compared to Index Sample |
| Albany | \$171,522,656 | 48.38% | 39.18% | 9.20% | 46.99% | 1.39% |
| Albuquerque | \$514,173,430 | 54.17% | 36.68% | 17.49% | 49.97% | 4.20% |
| Anchorage | \$484,514,023 | 68.71% | 53.99% | 14.72% | 65.03% | 3.68% |
| Atlanta | \$1,793,721,540 | 55.82% | 43.42% | 12.40% | 50.04% | 5.78% |
| Bakersfield | \$50,692,328 | 67.22% | 58.97% | 8.25% | 62.11% | 5.11% |
| Boston | \$1,647,263,198 | 66.17% | 56.02% | 10.15% | 61.46% | 4.71% |
| Buffalo | \$303,385,070 | 49.77% | 40.23% | 9.54% | 46.37% | 3.40% |
| Charlotte | \$165,592,339 | 48.31% | 42.99% | 5.32% | 49.93% | -1.62% |
| Chicago | \$1,366,489,414 | 62.63% | 53.68% | 8.95% | 57.40% | 5.23% |
| Cincinnati | \$457,677,756 | 43.03% | 37.15% | 5.88% | 39.25% | 3.78% |
| Cleveland | \$633,832,948 | 46.06% | 38.42% | 7.64% | 41.93% | 4.13% |
| Columbus | \$567,202,360 | 45.04% | 38.19% | 6.85% | 42.23% | 2.81% |
| Dallas | \$1,246,149,515 | 56.60% | 46.12% | 10.48% | 51.57% | 5.03% |
| Dayton | \$736,844,613 | 48.36% | 37.60% | 10.76% | 43.30% | 5.06% |
| Denver | \$1,253,550,161 | 66.61% | 58.19% | 8.42% | 60.68% | 5.93% |
| Detroit | \$829,737,966 | 61.97% | 52.23% | 9.74% | 57.56% | 4.41% |
| Guam | | -0.80% | -0.46% | -0.34% | -2.95% | 2.15% |
| Harrisburg | \$367,911,408 | 48.09% | 37.20% | 10.89% | 44.57% | 3.52% |
| Hartford | \$285,834,666 | 65.51% | 56.04% | 9.47% | 61.50% | 4.01% |
| Honolulu | \$898,027,005 | 50.58% | 39.19% | 11.39% | 46.82% | 3.76% |
| Houston | \$882,302,985 | 66.43% | 53.12% | 13.31% | 60.22% | 6.21% |
| Huntsville | \$791,112,530 | 55.97% | 44.72% | 11.25% | 49.39% | 6.58% |
| Indianapolis | \$541,862,549 | 35.67% | 29.65% | 6.02% | 32.78% | 2.89% |
| Lansing | \$46,577,257 | 43.33% | 39.26% | 4.07% | 39.75% | 3.58% |
| Los Angeles | \$2,238,985,443 | 78.49% | 66.33% | 12.16% | 74.07% | 4.42% |
| Miami | \$864,170,325 | 50.73% | 40.65% | 10.08% | 46.56% | 4.17% |
| Milwaukee | \$217,725,602 | 48.54% | 40.83% | 7.71% | 44.74% | 3.80% |
| Minneapolis | \$476,095,848 | 56.31% | 47.67% | 8.64% | 52.31% | 4.00% |
| New York | \$3,208,239,240 | 77.72% | 65.21% | 12.51% | 72.64% | 5.08% |
| Philadelphia | \$1,701,012,166 | 64.01% | 52.85% | 11.16% | 59.51% | 4.50% |
| Phoenix | \$548,320,318 | 50.11% | 39.77% | 10.34% | 46.54% | 3.57% |
| Pittsburgh | \$431,108,668 | 46.81% | 35.35% | 11.46% | 42.93% | 3.88% |
| Portland | \$643,900,996 | 55.80% | 43.89% | 11.91% | 50.93% | 4.87% |
| Portland ME | \$54,033,178 | 43.90% | 32.81% | 11.09% | 41.39% | 2.51% |
| Puerto Rico | | -8.43% | -15.31% | 6.88% | -10.31% | 1.88% |
| Raleigh | \$888,607,985 | 46.56% | 35.29% | 11.27% | 43.01% | 3.55% |
| Rest Of US | \$32,635,297,941 | 35.54% | 28.14% | 7.40% | 32.65% | 2.89% |
| Richmond | \$574,916,783 | 43.98% | 34.64% | 9.34% | 40.49% | 3.49% |
| Sacramento | \$464,889,599 | 64.00% | 49.76% | 14.24% | 59.81% | 4.19% |
| San Diego | \$1,373,402,558 | 80.57% | 67.68% | 12.89% | 76.77% | 3.80% |
| San Francisco | \$1,640,123,693 | 96.11% | 82.41% | 13.70% | 89.99% | 6.12% |
| Seattle | \$1,633,338,558 | 66.59% | 54.80% | 11.79% | 62.83% | 3.76% |
| Virgin Islands | | 25.81% | 15.24% | 10.57% | 22.37% | 3.44% |
| Washington DC | \$21,528,316,542 | 85.09% | 70.40% | 14.69% | 76.72% | 8.37% |
| All Areas Shown | \$87,158,463,160 | 58.27% | 47.67% | 10.60% | 53.38% | 4.89% |
| Proportion increase due sample reduction | | | | | | 46.09% |

| Aged 2010 OES Pay Gaps for New Locality Pay Areas | | | |
|---|----------|------------------|--------------------------|
| Area | 2010 Gap | Gap Aged to 2011 | Target Gap and 2013 Rate |
| Albany | 39.18% | 41.41% | 34.68% |
| Albuquerque | 36.68% | 38.87% | 32.26% |
| Bakersfield | 58.97% | 61.51% | 53.82% |
| Charlotte | 42.99% | 45.28% | 38.36% |
| Harrisburg | 37.20% | 39.40% | 32.76% |

| National Compensation Survey March 2011 Pay Gaps and Locality Pay Rates for 2013 | | | |
|---|-------------------------------|---------------------|--------------------------------|
| AREA | March 2011 GS Base Payroll | 2011 NCS Pay Gap | Target Gap and 2013 Rate |
| Anchorage | \$484,514,023 | 58.00% | 50.48% |
| Atlanta | \$1,793,721,540 | 48.21% | 41.15% |
| Boston | \$1,647,263,198 | 61.33% | 53.65% |
| Buffalo | \$303,385,070 | 42.23% | 35.46% |
| Chicago | \$1,366,489,414 | 58.67% | 51.11% |
| Cincinnati | \$457,677,756 | 43.62% | 36.78% |
| Cleveland | \$633,832,948 | 43.84% | 36.99% |
| Columbus | \$567,202,360 | 42.46% | 35.68% |
| Dallas | \$1,246,149,515 | 52.15% | 44.90% |
| Dayton | \$736,844,613 | 42.09% | 35.33% |
| Denver | \$1,253,550,161 | 51.69% | 44.47% |
| Detroit | \$829,737,966 | 51.17% | 43.97% |
| Hartford | \$285,834,666 | 64.77% | 56.93% |
| Honolulu | \$898,027,005 | 45.92% | 38.97% |
| Houston | \$882,302,985 | 50.97% | 43.78% |
| Huntsville | \$791,112,530 | 50.32% | 43.16% |
| Indianapolis | \$541,862,549 | 39.63% | 32.99% |
| Los Angeles | \$2,238,985,443 | 61.83% | 54.12% |
| Miami | \$864,170,325 | 49.42% | 42.31% |
| Milwaukee | \$217,725,602 | 44.62% | 37.74% |
| Minneapolis | \$476,095,848 | 53.95% | 46.62% |
| New York | \$3,208,239,240 | 68.63% | 60.60% |
| Philadelphia | \$1,701,012,166 | 51.76% | 44.53% |
| Phoenix | \$548,320,318 | 48.69% | 41.61% |
| Pittsburgh | \$431,108,668 | 37.80% | 31.24% |
| Portland | \$643,900,996 | 55.59% | 48.18% |
| Raleigh | \$888,607,985 | 41.33% | 34.60% |
| Rest Of US | \$34,005,800,537 | 35.87% | 29.40% |
| Richmond | \$574,916,783 | 39.13% | 32.50% |
| Sacramento | \$464,889,599 | 56.29% | 48.85% |
| San Diego | \$1,373,402,558 | 65.23% | 57.36% |
| San Jose | \$1,640,123,693 | 75.56% | 67.20% |
| Seattle | \$1,633,338,558 | 59.55% | 51.96% |
| Washington, DC | \$21,528,316,542 | 70.05% | 61.96% |
| All Pay Areas | \$87,158,463,160 | 51.37% | 44.16% |

Multi-County Metropolitan Areas Added to Existing Pay Areas under Proposed Criteria

| LOCALITY PAY AREA | ADJACENT METROPOLITAN AREA | 2000 COMMUTE RATE | 2006-2008 COMMUTE RATE | GS EMPL AVG SEP 10 TO JUN 11 |
|-------------------|---|-------------------|------------------------|------------------------------|
| Atlanta | Athens-Clarke County, GA Metropolitan Statistical Area | 15.31 | 17.59 | 745 |
| Atlanta | Columbus-Auburn-Opelika, GA-AL Combined Statistical Area | 6.02 | 7.63 | 4,535 |
| Boston | Claremont-Lebanon, NH-VT Combined Statistical Area | 8.90 | 9.88 | 904 |
| Boston | Portland-Lewiston-South Portland, ME Combined Statistical Area | 7.40 | 8.31 | 3,701 |
| Chicago | Ottawa-Streator, IL Micropolitan Statistical Area | 17.39 | 19.70 | 83 |
| Chicago | Rockford-Freepport-Rochelle, IL Combined Statistical Area | 9.16 | 11.98 | 204 |
| Cincinnati | Maysville, KY Micropolitan Statistical Area | 21.55 | | 16 |
| Cleveland | Canton-Massillon, OH Metropolitan Statistical Area | 20.21 | 23.86 | 198 |
| Columbus | Mansfield-Bucyrus, OH Combined Statistical Area | 10.68 | 13.99 | 186 |
| Detroit | Lansing-East Lansing-Owosso, MI Combined Statistical Area | 9.90 | 10.42 | 815 |
| Detroit | Saginaw-Bay City-Saginaw Township North, MI Combined Statistical Area | 8.59 | 9.84 | 631 |
| Detroit | Toledo-Fremont, OH Combined Statistical Area | 7.09 | 7.62 | 722 |
| Huntsville | Florence-Muscle Shoals, AL Metropolitan Statistical Area | 10.33 | 11.16 | 129 |
| Indianapolis | Bloomington, IN Metropolitan Statistical Area | 10.91 | 11.38 | 89 |
| Indianapolis | Kokomo-Peru, IN Combined Statistical Area | 11.99 | 11.74 | 407 |
| Indianapolis | Lafayette-Frankfort, IN Combined Statistical Area | 6.98 | 9.82 | 212 |

Attachment 5

| LOCALITY PAY AREA | ADJACENT METROPOLITAN AREA | 2000 COMMUTE RATE | 2006-2008 COMMUTE RATE | GS EMPL AVG SEP 10 TO JUN 11 |
|-------------------|---|-------------------|------------------------|------------------------------|
| Miami | Port St. Lucie-Sebastian-Vero Beach, FL Combined Statistical Area | 11.60 | 14.52 | 499 |
| Milwaukee | Fond du Lac-Beaver Dam, WI Combined Statistical Area | 15.00 | 18.43 | 85 |
| Minneapolis | Rochester, MN Metropolitan Statistical Area | 7.40 | 7.69 | 511 |
| Philadelphia | Allentown-Bethlehem-Easton, PA-NJ Metropolitan Statistical Area | 10.20 | 11.11 | 283 |
| Pittsburgh | Weirton-Steubenville, WV-OH Metropolitan Statistical Area | 12.52 | 15.16 | 25 |
| Raleigh | Rocky Mount, NC Metropolitan Statistical Area | 9.32 | 10.31 | 41 |
| Washington | Cumberland, MD-WV Metropolitan Statistical Area | 6.94 | 7.99 | 344 |
| Total | | | | 15,365 |

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| Commuting between Proposed New Pay Areas and Adjacent Multi County Metropolitan Areas | | | |
|---|--|--------------|------------------------------|
| AREA | ADJACENT MET | 2000 COMMUTE | GS Empl Avg Sep 10 to Jun 11 |
| Albuquerque | Santa Fe-Espanola, NM Combined Statistical Area | 11.68% | 922 |
| Charlotte | Hickory-Lenoir-Morganton, NC Metropolitan Statistical Area | 10.98% | 118 |

Attachment 6

Single Counties Added to Existing Locality Pay Areas under Proposed Criteria

| LOCALITY PAY AREA | COUNTY CODE | COUNTY NAME | COMMUTE 2000 CENSUS | COMMUTE 2006-2008 | POP DENSITY PERSONS PER SQUARE MILE 2000 CENSUS | GS EMP AVG Sep 10 to Jun 11 |
|----------------------|----------------|--------------------|---------------------------|----------------------|---|--|
| Atlanta | 13011 | Banks Co. GA | 38.24 | | 61.7 | 1 |
| Atlanta | 01029 | Cleburne Co. AL | 37.02 | | 25.2 | 21 |
| Atlanta | 13115 | Floyd Co. GA | 20.85 | 26.33 | 176.5 | 75 |
| Atlanta | 13123 | Gilmer Co. GA | 29.49 | 28.28 | 55.0 | 34 |
| Atlanta | 13129 | Gordon Co. GA | 18.48 | 23.37 | 124.0 | 14 |
| Atlanta | 13137 | Habersham Co. GA | 21.11 | 23.25 | 129.1 | 39 |
| Atlanta | 13157 | Jackson Co. GA | 53.24 | 58.62 | 121.5 | 26 |
| Atlanta | 13187 | Lumpkin Co. GA | 62.18 | 69.92 | 73.9 | 33 |
| Atlanta | 13211 | Morgan Co. GA | 54.18 | | 44.2 | 4 |
| Atlanta | 01111 | Randolph Co. AL | 40.04 | 28.52 | 38.5 | 3 |
| Atlanta | 13263 | Talbot Co. GA | 45.96 | | 16.5 | 0 |
| Atlanta | 13311 | White Co. GA | 39.33 | 43.07 | 82.6 | 2 |
| Boston | 33003 | Carroll Co. NH | 25.59 | 26.36 | 46.8 | 45 |
| Buffalo | 36121 | Wyoming Co. NY | 39.01 | 41.58 | 73.2 | 7 |
| Chicago | 17075 | Iroquois Co. IL | 32.38 | 34.71 | 28.1 | 9 |
| Chicago | 18149 | Starke Co. IN | 27.25 | 34.55 | 76.2 | 1 |
| Cincinnati | 39001 | Adams Co. OH | 30.12 | 30.36 | 46.8 | 2 |
| Cincinnati | 39071 | Highland Co. OH | 40.07 | 40.47 | 73.9 | 21 |
| Cincinnati | 21187 | Owen Co. KY | 31.27 | | 30.0 | 4 |
| Cincinnati | 18137 | Ripley Co. IN | 53.72 | 55.37 | 59.4 | 4 |
| Cincinnati | 18155 | Switzerland Co. IN | 46.97 | | 41.0 | 3 |
| Cincinnati | 18161 | Union Co. IN | 31.30 | | 45.5 | 0 |
| Cleveland | 39043 | Erie Co. OH | 18.77 | 24.32 | 312.1 | 177 |
| Cleveland | 39169 | Wayne Co. OH | 24.43 | 25.11 | 200.9 | 74 |

Attachment 6

| LOCALITY PAY AREA | COUNTY CODE | COUNTY NAME | COMMUTE 2000 CENSUS | COMMUTE 2006-2008 | POP DENSITY PERSONS PER SQUARE MILE 2000 CENSUS | GS EMP AVG Sep 10 to Jun 11 |
|----------------------|----------------|-------------------|---------------------------|----------------------|---|--|
| Columbus | 39073 | Hocking Co. OH | 48.27 | 61.74 | 66.8 | 1 |
| Columbus | 39091 | Logan Co. OH | 24.02 | 22.21 | 100.4 | 41 |
| Columbus | 39119 | Muskingum Co. OH | 17.91 | 20.22 | 127.3 | 56 |
| Columbus | 39127 | Perry Co. OH | 50.91 | 61.45 | 83.2 | 5 |
| Columbus | 39131 | Pike Co. OH | 32.26 | 32.82 | 62.7 | 22 |
| Columbus | 39163 | Vinton Co. OH | 30.21 | | 30.9 | 4 |
| Dallas | 40013 | Bryan Co. OK | 27.74 | 22.73 | 40.2 | 21 |
| Dallas | 48217 | Hill Co. TX | 29.16 | 30.15 | 33.6 | 19 |
| Dallas | 48223 | Hopkins Co. TX | 19.52 | 22.48 | 40.8 | 14 |
| Dallas | 48237 | Jack Co. TX | 34.86 | | 9.6 | 4 |
| Dallas | 48337 | Montague Co. TX | 34.23 | | 20.5 | 8 |
| Dallas | 48349 | Navarro Co. TX | 27.17 | 31.38 | 44.8 | 23 |
| Dallas | 48379 | Rains Co. TX | 53.91 | | 39.4 | 0 |
| Dallas | 48467 | Van Zandt Co. TX | 46.36 | 49.02 | 56.7 | 9 |
| Dayton | 39149 | Shelby Co. OH | 28.52 | 31.61 | 117.1 | 7 |
| Detroit | 26151 | Sanilac Co. MI | 39.09 | 39.06 | 46.2 | 10 |
| Detroit | 26157 | Tuscola Co. MI | 24.74 | 24.99 | 71.7 | 18 |
| Houston | 48089 | Colorado Co. TX | 23.21 | 25.84 | 21.2 | 10 |
| Houston | 48185 | Grimes Co. TX | 31.74 | 36.55 | 29.7 | 4 |
| Houston | 48313 | Madison Co. TX | 25.78 | | 27.6 | 1 |
| Houston | 48373 | Polk Co. TX | 27.94 | 32.44 | 38.9 | 36 |
| Houston | 48455 | Trinity Co. TX | 39.81 | | 19.9 | 1 |
| Houston | 48477 | Washington Co. TX | 19.70 | 22.23 | 49.9 | 14 |
| Houston | 48481 | Wharton Co. TX | 29.22 | 33.15 | 37.8 | 13 |
| Huntsville | 47103 | Lincoln Co. TN | 27.25 | 31.48 | 55.0 | 5 |
| Huntsville | 01095 | Marshall Co. AL | 17.48 | 20.50 | 145.0 | 116 |

Attachment 6

| LOCALITY PAY AREA | COUNTY CODE | COUNTY NAME | COMMUTE 2000 CENSUS | COMMUTE 2006-2008 | POP DENSITY PERSONS PER SQUARE MILE 2000 CENSUS | GS EMP AVG Sep 10 to Jun 11 |
|----------------------|----------------|-------------------|---------------------------|----------------------|---|--|
| Indianapolis | 18031 | Decatur Co. IN | 22.94 | 30.33 | 65.9 | 15 |
| Indianapolis | 18035 | Delaware Co. IN | 18.51 | 20.59 | 302.0 | 59 |
| Indianapolis | 18045 | Fountain Co. IN | 21.25 | | 45.4 | 9 |
| Indianapolis | 18071 | Jackson Co. IN | 30.11 | 33.64 | 81.2 | 6 |
| Indianapolis | 18139 | Rush Co. IN | 53.48 | | 44.7 | 2 |
| Milwaukee | 55055 | Jefferson Co. WI | 23.76 | 26.61 | 132.9 | 39 |
| Milwaukee | 55127 | Walworth Co. WI | 25.78 | 25.66 | 168.8 | 14 |
| Minneapolis | 27065 | Kanabec Co. MN | 37.43 | | 28.6 | 10 |
| Minneapolis | 27079 | Le Sueur Co. MN | 38.29 | 51.31 | 56.7 | 4 |
| Minneapolis | 27093 | Meeker Co. MN | 54.95 | 63.14 | 37.2 | 23 |
| Minneapolis | 27095 | Mille Lacs Co. MN | 58.34 | 65.15 | 38.9 | 3 |
| Minneapolis | 27097 | Morrison Co. MN | 29.66 | 31.82 | 28.2 | 155 |
| Minneapolis | 27115 | Pine Co. MN | 32.00 | 32.49 | 18.8 | 213 |
| Minneapolis | 55095 | Polk Co. WI | 39.27 | 43.77 | 45.0 | 51 |
| Minneapolis | 27143 | Sibley Co. MN | 39.67 | | 26.1 | 4 |
| Minneapolis | 27147 | Steele Co. MN | 15.53 | 20.70 | 78.4 | 2 |
| Minneapolis | 27153 | Todd Co. MN | 16.02 | 21.60 | 25.9 | 19 |
| New York | 36105 | Sullivan Co. NY | 40.68 | 37.22 | 76.3 | 30 |
| Pittsburgh | 42059 | Greene Co. PA | 43.62 | 45.20 | 70.6 | 32 |
| Pittsburgh | 42063 | Indiana Co. PA | 24.45 | 23.19 | 108.1 | 52 |
| Portland | 53015 | Cowlitz Co. WA | 22.17 | 31.27 | 81.6 | 78 |
| Raleigh | 37033 | Caswell Co. NC | 16.85 | 22.97 | 55.3 | 2 |
| Raleigh | 37077 | Granville Co. NC | 62.09 | 65.58 | 91.3 | 1263 |

Attachment 6

| LOCALITY PAY AREA | COUNTY CODE | COUNTY NAME | COMMUTE 2000 CENSUS | COMMUTE 2006-2008 | POP DENSITY PERSONS PER SQUARE MILE 2000 CENSUS | GS EMP AVG Sep 10 to Jun 11 |
|----------------------|----------------|-------------------------|---------------------------|----------------------|---|--|
| Raleigh | 37105 | Lee Co. NC | 47.77 | 49.20 | 190.6 | 57 |
| Raleigh | 37181 | Vance Co. NC | 22.08 | 27.21 | 169.4 | 34 |
| Richmond | 51029 | Buckingham Co. VA | 22.24 | | 26.9 | 2 |
| Richmond | 51057 | Essex Co. VA | 34.64 | | 38.8 | 7 |
| Richmond | 51081 | Greensville Co. VA | 22.75 | | 39.1 | 0 |
| Richmond | 51119 | Middlesex Co. VA | 21.87 | | 76.2 | 0 |
| Richmond | 51135 | Nottoway Co. VA | 36.25 | | 50.0 | 179 |
| Richmond | 51147 | Prince Edward Co. VA | 22.26 | 10.08 | 55.9 | 27 |
| Sacramento | 06003 | Alpine Co. CA | 55.64 | | 1.6 | 9 |
| Sacramento | 06005 | Amador Co. CA | 22.02 | 25.15 | 59.2 | 40 |
| Sacramento | 06011 | Colusa Co. CA | 25.39 | 30.47 | 16.3 | 39 |
| Sacramento | 06091 | Sierra Co. CA | 22.41 | | 3.7 | 47 |
| San Jose | 06033 | Lake Co. CA | 17.89 | 20.44 | 46.4 | 74 |
| Seattle | 53027 | Grays Harbor Co. WA | 16.06 | 20.06 | 35.1 | 47 |
| Seattle | 53041 | Lewis Co. WA | 26.54 | 29.03 | 28.5 | 66 |
| Washington | 24011 | Caroline Co. MD | 20.76 | 27.16 | 93.0 | 12 |
| Washington | 54031 | Hardy Co. WV | 21.05 | | 21.7 | 25 |
| Washington | 24029 | Kent Co. MD | 31.19 | 27.91 | 68.7 | 13 |
| Washington | 51113 | Madison Co. VA | 35.37 | | 39.0 | 21 |
| Washington | 51137 | Orange Co. VA | 40.00 | 60.65 | 75.7 | 8 |
| Washington | 51139 | Page Co. VA | 14.81 | 21.70 | 74.5 | 111 |
| Washington | 51157 | Rappahannock Co. VA | 103.14 | | 26.2 | 9 |
| Washington | 51171 | Shenandoah Co. VA | 33.68 | 38.39 | 68.5 | 48 |
| Washington | 24041 | Talbot Co. MD | 18.65 | 20.03 | 125.6 | 28 |
| Total | | | | | | 4,049 |

Attachment 6

| Commuting between <u>Proposed</u> New Pay Areas and Adjacent Counties not in a Multi-County Metropolitan Area | | | | |
|---|---------------------|-------------------|----------------------|---------------------------------------|
| MET | NAME | 2000 Commuting | 2006-2008 COMMUTE | GS Empl Avg Sep 10 to Jun 11 |
| Albany | Greene Co. NY | 45.51% | 46.91% | 8 |
| Albany | Hamilton Co. NY | 26.33% | | 2 |
| Charlotte | Chesterfield Co. SC | 23.48% | 29.47% | 16 |
| Harrisburg | Juniata Co. PA | 28.29% | 28.86% | 24 |

Mr. DAVIS. Thank you. My time is up, and I would yield back.

Mr. ROSS. Thank you.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Similarly, I would like to ask unanimous consent that the statement of Colleen M. Kelly, the national president of the National Treasury Employees Union, also be entered into the record.

Mr. ROSS. And, without objection, it is so ordered.

[The prepared statement of Ms. Kelly follows:]

Chairman Ross, Ranking Member Lynch, and members of the Subcommittee, thank you for this opportunity to provide testimony on behalf of the 150,000 federal employees represented by the National Treasury Employees Union (NTEU). NTEU is also proud to be part of the Federal-Postal Coalition, which is providing separate testimony at today's hearing.

The federal employees represented by NTEU are dedicated, experienced and well educated individuals who diligently work to accomplish their agencies' missions with declining resources. They are budget analysts overseeing multi-billion dollar budgets; physicians undertaking cutting edge research to cure deadly diseases; law enforcement officers guarding our borders, and scientists safeguarding our food and water supplies. They tend to be more experienced and have more years of education than private sector workers. Fully 51 percent have a college degree compared with an estimated 35 percent of private sector workers. Twenty percent have advanced degrees compared with 13 percent of private sector workers.

The size of the federal workforce has declined from one federal worker for every 78 U.S. residents in 1953 to one federal worker for every 147 residents in 2009. This fact alone shows just how much smarter and harder federal employees are working. Consider this – in 1995, the Internal Revenue Service (IRS) had a staff of 114,018 to administer our tax laws and process 205 million returns. Today, the IRS employs just over 94,000 and processes approximately 236 million much more complicated tax returns than it handled in 1995.

It serves no one to belittle the work of the federal workforce and ultimately, it is the public that loses when the federal government is unable to retain – or recruit the best employees. It is well past time that, as a nation, we understand and agree on that.

In late 2010, Congress enacted a federal pay freeze for 2011 and 2012. That pay freeze is estimated to reduce federal spending and the deficit by more than \$60 billion over the next ten years. However, before other groups have even contributed a dime to deficit reduction efforts, some in Congress have returned to attack the federal pension system and attempt to squeeze an additional \$65 billion in cuts from this middle class group of taxpayers.

In the 1980's, Congress worked to reform and modernize the federal retirement program. Twenty-five years ago, the Federal Employees Retirement System (FERS) was created to replace the original Civil Service Retirement System (CSRS) and address its growing unfunded liability. FERS solved that problem, and, helped save the Social Security system, as well, at a critical juncture in its history. The retirement age, annuity calculation, cost of living adjustment formula and basic benefit formula are all less generous than the earlier CSRS retirement system. FERS is fully funded and financially sound with no unfunded liability. Today, FERS is frequently pointed to as a model by a diverse group of pension experts.

Most federal employees must work 30 years and reach 55 years of age before becoming eligible for an unreduced annuity. Members of Congress, who pay slightly more toward their retirement and receive a slightly higher pension, can retire after 20 years of service at the age of 50 with an unreduced annuity. In 2007, the average monthly annuity payment to workers who retired under the FERS system was \$944 each month – less than \$12,000 annually. It is also important to keep in mind that federal

employees contribute 12% of their pay into all three parts of their retirement system to achieve a modest retirement income. This is not the hallmark of an overly generous retirement system. To listen to some critics of the FERS program, you would think that the program is opulent. It is not.

In announcing your hearing, Mr. Chairman, you indicated that you would seek to turn the federal pension program into a “cost-affordable defined contribution pension system”. It is difficult to see how this plan fits the title of this hearing. Study after study shows that defined contribution systems do not provide adequate retirement income. The testimony of Mr. Andrew Biggs of the American Enterprise Institute indicates that “(F)inancial advisors generally recommend a “replacement rate” of 70 to 80 percent of final earnings for an adequate retirement income.” He then suggests that a 32% replacement rate would be adequate for federal employees – less than half what he acknowledges financial advisors recommend.

Defined benefit plans are a good fit for a workforce that is highly educated and slightly older than the general workforce. It is an excellent tool to recruit and retain skilled workers. That is why so many governmental entities provide defined benefits. Rather than try to eliminate a well-designed system that meets the goals for which it was created, Congress should be considering the impact of millions of workers in defined contribution plans who will have to seek out federal poverty programs when they retire due to inadequate replacement income.

DEFICIT REDUCTION AND FEDERAL EMPLOYEES

In December, as part of the Payroll Tax Holiday Extension legislation, the House passed changes to the federal retirement program that were nothing less than draconian. Ironically, the Social Security

payroll tax holiday these cuts were designed to fund would not even benefit nearly 600,000 federal employees in the CSRS retirement system who do not receive – or contribute to - Social Security.

Even more ironic is the fact that increasing employee pension contributions with no corresponding increase in benefits is little more than a tax – a selective tax on federal workers that is scored as revenue by CBO. It is difficult for me to explain to NTEU members why Members of Congress – especially those who took a pledge NOT to raise taxes - have suddenly carved out an exception for federal workers. Apparently the pledge not to raise taxes does not apply to those who serve our nation.

The leadership of the House of Representatives would rather cut the pay and retirement benefits of federal workers than increase taxes by even the smallest amount for the extremely wealthy. The theory behind the payroll tax holiday is that it puts money directly into the hands of working Americans and is an important and much-needed economic stimulus. However, freezing the pay and increasing the pension contributions for middle class federal workers across the country while continuing to protect the income and benefits of the most affluent members of our society defeats the purpose of the stimulus.

The House-passed Payroll Tax Extension Bill would increase pension contributions for current employees by .5% for three years with a permanent increase of 1.5% continuing after that. An average federal employee would see a decrease in take-home pay of from \$400 to \$1150 per year by 2015. In addition, ending the FERS supplement for those not subject to mandatory retirement would have a major impact on those employees retiring before age 62. For an average employee eligible to retire at 55, this would be a loss of over \$65,000 over seven years.

For new hires with less than five years of previous service, the bill would base future federal employee pensions on the highest 5 years of service instead of the current highest 3 years and reduce the multiplier used to calculate annuities. This would reduce benefits for future federal retirees by more than 40 percent. When the provision to eliminate the FERS Social Security supplement is factored in, the FERS retirement system provides little benefit to future retirees. Lost in these proposals is any recognition that FERS was the result of an exhaustive two year study by both the House and the Senate to create a new retirement system whose costs and benefits to both the employee and the employer would be reasonable. It was carefully crafted to meet the objectives of federal employee compensation policy and to have a positive impact on the federal workforce. Changing the employee contribution without changing the benefits in a similar way is simply a tax on federal employees.

Earlier this year, Republicans on the House Committee on Oversight and Government Reform suggested similar proposals to the “Supercommittee”, as they worked on their ultimately unsuccessful plan to achieve further deficit reduction. Their proposals – to change the high three to high five, increase employee contributions to FERS by 6.2%, increase employee contributions to CSRS to 10%, eliminate the FERS pension for new hires, eliminate the FERS supplement for current employees, reduce the workforce by 10%, extend the pay freeze through 2015 and eliminate step increases – added up to \$375 billion in cuts over ten years. It is sad that the Committee tasked with overseeing the federal workforce seems hell-bent on destroying it.

Coupled with the two year pay freeze, these changes in the federal pension system would result in real, permanent and meaningful declines in employee take home pay and standards of living. In addition, there is little question that these changes would be a major disincentive to those contemplating joining the federal workforce in the future.

The Council for Excellence in Government & Gallup Organization reports that 60 percent of the federal government's General Schedule employees and up to 90 percent of the Senior Executive Service will be eligible to retire in the next ten years. Whether this Subcommittee wants to admit it or not, the federal government will need to be prepared to compete for the best and brightest college graduates to fill this retirement void. Fair pay, affordable health insurance and a solid retirement program will be required to compete for and retain the talent and experience the federal government will need.

DEFINED BENEFIT PENSIONS

Critics often complain that the FERS system is out of line with private sector retirement plans. Two points are relevant here: First, there are still millions of workers in the private sector with defined benefit plans. In addition, there is strong evidence that both public and private sector defined benefit plans strengthen national and local economies. The National Institute on Retirement Security (NIRS) produced figures for 2009 that indicate that defined benefit pensions had a total economic impact of \$756 billion, supported more than 5.3 million American jobs, and supported more than \$121.5 billion in annual federal, state and local tax revenue.

Late last year, the Congressional Budget Office released a survey of household wealth, showing that in the years from 1979 to 2007, the share of income for the top one percent in this country grew by 275% while the middle 60 percent of the country saw their income grow by just under 40%. This rapid rise in income for the top one percent reflects, at least in part, the very large pay and compensation increases for top corporate executives. One of the ways corporations found the money to increase the

compensation for top executives was to end their defined benefit pension plans for the rest of their workers.

In recent testimony before the Senate Finance Committee, the Pension Rights Center urged Congress to come up with policies that will encourage more businesses to bring back some form of defined benefit plans. Significantly, two states, Nebraska and West Virginia, both switched their public pension funds from defined benefit plans to defined contribution plans but went back to defined benefit plans “when it was revealed that the benefits provided [in the defined contribution plans] did not allow employees to retire with an adequate income.” (See “The Staying Power of Pensions in the Public Sector” by Beth Almeida and Ilana Boivie, published in the California Public Employees Program Journal, May 2009.)

Second, the decline of defined benefit plans is thanks to a combination of the economy, clever accounting gimmicks by corporations to raid pension funds, and overzealous “benefit consultants” who find new ways to use the funds for anything other than actual pensions. Because of this, more and more employees in the public and private sector are facing attacks on one of the most critical factors in maintaining a middle class lifestyle in retirement – a pension. The pensions and 401(k)s that replaced defined benefit plans will simply not provide enough retirement income for middle class Americans. This is a serious problem that must be dealt with in the near future. A recent front page story in the *Washington Post* indicated that the shift to 401(k) plans “put the burden of saving and investing for retirement on workers, and many were unable to do so”.

The Center for Retirement Research at Boston College has calculated that the estimated national retirement income deficit facing households in this country is between \$5.2 and \$7.9 trillion.

NIRS has stated that "Half of the retirees who plan on drawing down their savings in their 401(k) account over their life expectancy will run out of money". Many will simply not retire at all. Sun Life Financial's "Unretirement Index" released in October shows that the number of American workers who feel "very confident" that they will be able to pay for basic living expenses in retirement has plummeted since September 2010. In fact, the only group that feels confident about their retirement is the group that has a lifetime guaranteed annuity, the kind found in defined benefit plans.

CONCLUSION

Federal employees are well aware of the challenges our country faces -- and as I have detailed here -- have already stepped up to the plate to do their part. In addition to the \$60 billion over 10 years that federal employees have contributed as a result of the 2011 and 2012 federal pay freeze, they continue to help their agencies perform their missions successfully and efficiently, even in the face of continued threats of government shutdowns. Serving America has been and will continue to be job #1 for federal employees. We don't need a second class civil service, and we can't afford one either.

Mr. ROSS. That completes our questioning by these Members. We have been called to vote. We will recess now.

I want to thank our panelists for being here today. I appreciate your testimony.

And then we will reconvene right after this series of votes to impanel our second panel of witnesses.

[Recess.]

Mr. ROSS. I want to reconvene the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy. In the interest of time, we are going to go ahead and get started, and I would like to recognize one of our first panelists, the gentleman from North Carolina, Mr. Coble, for 5 minutes on his bill.

STATEMENT OF HON. HOWARD COBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. COBLE. Chairman Ross, I thank you and your fellow members of the subcommittee for having called this hearing.

Reforming congressional pensions is long overdue. From the feedback that I have received over the years, Mr. Chairman, this program is unpopular with many taxpayers. When I first ran for office in 1984, I told citizens of the Sixth District of North Carolina that if elected, I would not participate in the congressional pension program—not my most brilliant financial decision, I might add—and would work to reform the system.

North Carolina has a similar system back home, and I have rejected that as well, for this reason, Mr. Chairman. I believe the taxpayers pay our salary. I don't know that they need to pay our pensions. Over the years, I have tried unsuccessfully to change the congressional pension program. I have introduced bills to abolish the system and to make it equal to the pension that all Federal employees receive. All of these past efforts died quickly and quietly.

So for the 112th Congress, I tried a new approach. My bill would link to the time of service required before a Member of Congress would be eligible for participation in the pension program. This legislation, H.R. 2652, extends the time required, as is the case now, from 5 years to 12 years before a Member is vested in an annuity under the Federal Employees Retirement System. In order to avoid any constitutional concerns, the bill would only apply to Members who have not yet been elected to serve in the Congress.

Extending the required years of service from 5 to 12 years was a logical calculation. It is the equivalent of two terms in the Senate or six terms in the House or a combination of each of the two.

It is also important to note, Mr. Chairman, that H.R. 2652 has no impact on other Federal employees. During the past few years, many workers and retirees in America have lost their pensions due to bankruptcy or in the stock market. In my view, the decision to participate in the congressional pension program is a personal one, between the Representative and his or her constituents. H.R. 2652 does not interfere with that relationship. It simply raises the bar of eligibility for Members seeking a Federal annuity.

I think the bar should be raised, and considering the current economy, I think doing so now would be received very well by the American taxpayers.

I am not patting myself on the back. Well, maybe I am, but I am patting you on the back as well, Mr. Chairman, you and your members, for having called this hearing because many people in this town don't want any discussion directed to pensions. They want the status quo to remain intact, and I think that is probably—in my opinion, that is a mistake. I appreciate your consideration for H.R. 2652 and hope that you will support this legislation so that we can begin the process of improving the congressional pension program.

Mr. Chairman, in closing, I don't know of any pension situation that vests after only 5 years. I think it is overly generous, and I think that is one of the reasons why it is so unpopular among taxpayers in America, and I thank you again, Mr. Chairman.

[The prepared statement of Hon. Howard Coble follows:]

**THE HONORABLE HOWARD COBLE
STATEMENT
SUBCOMMITTEE ON FEDERAL WORKFORCE, U.S. POSTAL SERVICE AND
POLICY**

**LEGISLATIVE HEARING ON RETIREMENT READINESS, STRENGTHENING
FEDERAL PENSION SYSTEM**

WEDNESDAY, JANUARY 25, 2012

H.R. 2652: A Bill to amend title 5, United States Code, to provide that Members must complete 12 years of creditable service in order to be vested in an annuity under the Federal Employee Retirement

Good morning Chairman Ross, Ranking Member Lynch and other members of the subcommittee. Thank you for taking the time to schedule this important hearing.

Reforming congressional pensions is long overdue. From the feedback that I have received over the years, this program is unpopular with many taxpayers.

When I first ran for this office in 1984, I told citizens of the Sixth District that, if elected, I would not participate in the congressional pension program and would work to reform the system. As an aside, I did not participate in North Carolina's legislative pension system either.

Over the years, I have tried unsuccessfully to change the congressional pension program. I have introduced bills to abolish the

system and to make it equal to the pension that all federal employees receive. All of these past efforts died quickly and quietly. So, for the 112th Congress, I tried a new approach: My bill would lengthen the time of service required before a Member would be eligible for participation in the pension program.

This legislation is H.R. 2652 and it extends the time required from five years to 12 years before a Member is vested in an annuity under the Federal Employee Retirement System. In order to avoid any constitutional concerns, the bill would only apply to Members who have not yet been elected to serve in Congress.

Extending the required years of service from five years to 12 years was a logical calculation. It is the equivalent of two terms in the Senate or six terms in the House or any combination of the two. It is also important to note the H.R. 2652 has no impact on other federal employees.

During the past few years, many workers and retirees in America have lost their pensions due to bankruptcy or the stock market. In my view, the decision to participate in the congressional pension program is a personal one, between the representative and his or her constituents. H.R. 2652 does not interfere with that

relationship; it simply raises the bar of eligibility for Members seeking a federal annuity. I think the bar should be raised – and considering the current economy – I think doing so now would be received very well by the American people.

I am not patting myself on the back for refusing the congressional pension; it's something that I pledged to my constituents and intend to honor. I deeply appreciate your consideration of H.R. 2652 and hope that you will support this legislation so we can begin the process of improving the congressional pension program.

Thank you again, I yield back the balance of my time.

Mr. ROSS. Thank you, Mr. Coble, I appreciate your time today. Now recognize the gentleman from Arkansas' Second Congressional District, Mr. Griffin, for 5 minutes.

Mr. COBLE. Mr. Chairman, may I be excused?

Mr. ROSS. Yes, sir.

Mr. COBLE. I am going to head to the airport.

Mr. ROSS. Have a safe trip home, Mr. Coble.

Mr. COBLE. Thank you, sir. Appreciate it.

Mr. ROSS. Yes, sir.

**STATEMENT OF HON. TIM GRIFFIN, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF ARKANSAS**

Mr. GRIFFIN. Thank you, Mr. Chairman, thank you to Ranking Member Lynch for inviting me to testify on my bill, H.R. 3480, the End Pensions in Congress [EPIC] Act.

My top priority in Congress is to encourage private sector job creation, especially through finding ways that the government can live within its means. I believe the EPIC Act helps to achieve this goal.

Americans are demanding bold and real change from Washington, and I believe my proposal meets that test, and as I hear a lot when I am back in my district in Arkansas, it is something that my constituents really don't think we will ever do.

On November 18, 2011, I introduced the EPIC Act, which would end the congressional pension plan for future Members of Congress and recently elected Members who have not yet vested. So if you are here like me and you haven't been here 5 years, then it would end the pension for you as well as new Members of Congress.

If you have already vested, then you have the opportunity to opt in if you want to stay in the system, and then it won't impact you. I thought that was only fair for the people who had been here for some time, to leave the rules of the game as they were when they got here.

For me, this is not a moral judgment. I personally, like Congressman Coble, decided not to participate in the congressional pension program. I did that because I ran on it. But this is not a moral judgment for me, and I don't ask that folks necessarily share my view on whether to take the pension in order to support the EPIC Act.

I would love to provide Members with pensions, but for me, it is just a matter of the bottom line, and that is that we can't afford it. Our national debt has topped \$15 trillion, going to \$16 trillion, and the Federal Government borrows 42 cents for every dollar it spends. And I recognize that ending congressional pensions alone will not fix our debt problems. In fact, it won't even significantly reduce our Federal spending. I get that. But I believe it is the gateway, if you will, it is the necessary starting point for reforming the Federal Employees Retirement Program more broadly, FERS, as we call it.

Congress must lead by example and cannot credibly tackle FERS without first reforming our own federally funded benefits. Many of my constituents have told me they support ending congressional pensions and pensions for future Federal employees because they know those combined, not just focusing on the congressional, but those combined will save the American taxpayers hundreds of bil-

lions of dollars. The private sector has already realized that defined-benefit pension plans for employees are a thing of the past. This realization came at a cost with the failure of the pension programs of some of America's biggest companies.

Take, for example, United Airlines and Delphi corporations. Both of these companies' pension programs were turned over to the Pension Benefit Guaranty Corporation, and now some participants in those programs receive reduced payments.

If you look at what the private sector gets in terms of private-sector employees and their benefits and what we get in the Federal Government, what we get is generous by any standard. Most private-sector employers do not provide pension benefits. Some provide TSPs with a 3 percent match. We get a 5 percent match.

The Federal Government is currently projected to contribute about \$25 billion to FERS in 2012. By 2025, there is a three-quarter of a trillion dollar deficit. If we do not adjust these benefits for future recipients, our retired Federal employees may be faced with potential cuts to their benefits. We have already seen this in Greece, where the current financial crisis has resulted in a 20 percent cut in pensions.

So the bottom line is this: It is not a choice between leaving things the same or changing and reforming the system. We either have to reform the system, or eventually benefits are going to be cut for people currently relying on them.

I ask for your support with my bill. I think it is a first step toward reforming pensions more broadly. I think it is about time we did it. Thank you for having me here today. Look forward to working with you on it.

[The prepared statement of Hon. Tim Griffin follows:]

Statement of Congressman Tim Griffin
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
House Oversight and Government Reform Committee
“Retirement Readiness: Strengthening the Federal Pension System”
January 25, 2012

I thank Chairman Ross and Ranking Member Lynch for inviting me to testify on my bill, H.R. 3480, the End Pensions in Congress (EPIC) Act.

My top priorities as a Member of the U.S. House of Representatives have been to limit excessive federal spending and to restore stability to the U.S. economy so we can continue to lead the world in innovation and job creation. I have heard from many of my constituents in the Second Congressional District of Arkansas who expressed their support for ending both Congressional pensions and pensions for future federal employees. Congress and the President must work together to institute common sense reforms to how our federal government spends hard-earned taxpayer dollars. Your subcommittee’s jurisdiction over the federal workforce can help to provide a critical role in determining how we can reform retirement benefits for Members of the House and Senate and the future federal workforce to save American taxpayers hundreds of billions of dollars.

On November 18, 2011, I introduced the EPIC Act to end the Congressional pension plan for recently-elected Members of the House and Senate who have not yet qualified for pension benefits and for future Members. The EPIC Act would also end the pension plan for Members of the House and Senate who have served for five or more years and do not opt in to continue their pension benefits within 90 days of the bill’s enactment. This bill is an important first step to reforming the retirement programs for all future federal civilian employees so that we can reduce government spending and get our fiscal house in order.

Under current law, at the age of retirement, Members of the House and Senate who serve for at least five years receive a pension. This pension provides them with an annual payment of 1.7 percent of their salary multiplied by the number of years they served in Congress. In 2009, under the current plan, the average annual pension for those retiring from Congress was \$40,140. Some Members, however, are eligible to receive up to 80 percent of their final annual salary, which currently would equal over \$137,000 a year.¹

Here’s the bottom line: our national debt has topped \$15 trillion, and the federal government borrows 42 cents for every dollar it spends. The American taxpayer can no longer afford to pay for the retirement benefits of Members of Congress. Although the elimination of Congressional pensions will not fix our federal debt problems, or even make a significant dent in the reduction of our federal spending, it is a necessary starting point for reforming the Federal Employees’ Retirement Program (FERS).

I believe that the EPIC Act is necessary because Congress needs to lead by example and cannot credibly tackle FERS without first reforming our own federally funded benefits. Reforming FERS for future

¹ Congressional Research Service, *Federal Employees’ Retirement System: Benefits and Financing* (Washington, DC: CRS, October 20, 2011).

federal employees will save the American taxpayer hundreds of billions of dollars. It has become clear that pensions for future federal employees have also become a luxury that this nation can no longer afford.

The EPIC Act is an important first step towards instituting necessary reforms to retirement benefits for all future federal employees while still ensuring that benefits offered by the federal government remain competitive with those in the private sector. Since President Obama took office in 2009, he has increased the federal civilian workforce by more than 190,000 individuals, which totaled 2,130,289 federal civilian employees in September 2011.² As the number of federal employees continues to rise under this Administration, it is important that we acknowledge the additional burden that hard working American taxpayers are required to shoulder in order to provide the generous benefits that these individuals are eligible to receive.

The private sector has already realized that defined benefit pension plans for employees are a thing of the past. This realization, though, came at a cost with the failure of the pension programs of some of America's biggest companies, including United Airlines and Delphi Corporation, one of the world's largest automotive parts manufacturers. Both of these companies' pension programs were turned over to the Pension Benefit Guarantee Corporation (PBGC), and some participants in these pension programs will receive reduced payments.³

In general, all full-time permanent civilian federal employees are eligible to receive a pension, health benefits, and participate in the Thrift Savings Plan, which is similar to a 401(k), with up to a five percent match by the federal government.⁴ As noted in the chart below, the number of full-time private industry employees that participate in a defined benefit pension plan has been in a steady decline over the past two decades, and now nearly 80 percent of private sector employees do not receive a pension.⁵ Currently, thirty-one percent of private sector employees do not have access to employer-provided health care⁶, and the most common retirement benefit for a private sector employee is a 401(k) with only a three percent employer match.⁷ By only eliminating the pension program, federal employees will still be eligible to receive generous health and retirement benefits while saving billions in taxpayer dollars.

² U.S. Office of Personnel Management, <http://www.fedscope.opm.gov/employment.asp> (accessed 18 Jan. 2012)

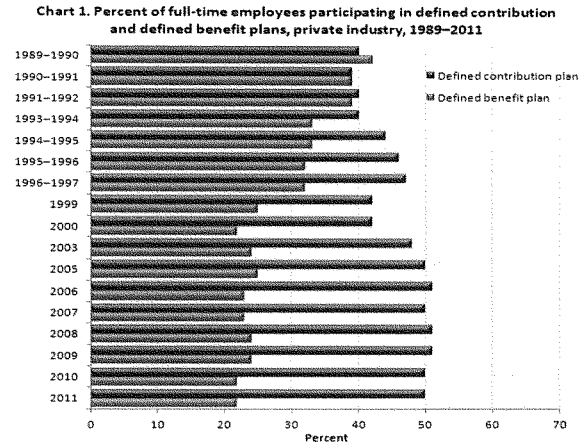
³ "The 10 Biggest Failed Pension Plans," *U.S. News and World Report*, 23 Aug. 2010, <http://money.usnews.com/money/blogs/planning-to-retire/2010/08/23/the-10-biggest-failed-pension-plans> (accessed 19 Jan. 2012)

⁴ Congressional Research Service, *Federal Employees' Retirement System: Benefits and Financing* (Washington, DC: CRS, October 20, 2011).

⁵ U.S. Department of Labor Bureau of Labor Statistics, *Changing Landscape of Employment-based Retirement Benefits* (Washington, DC: BLS, September 29, 2011).

⁶ U.S. Department of Labor Bureau of Labor Statistics, *Employee Benefits in the United States – March 2011* (Washington, DC: BLS, July 26, 2011).

⁷ Emily Brandon, "5 Employers With Generous 401(k) Matches," *U.S. News and World Report*, 27 Sep. 2010, <http://money.usnews.com/money/retirement/articles/2010/09/27/5-employers-with-generous-401k-matches> (accessed 18 Jan. 2012).



According to the September 2010 Civil Service Retirement and Disability Fund Annual Report, in 2012, the federal government is projected to contribute about \$24.9 billion to the Federal Employees' Retirement System (FERS). By 2065, FERS required contributions from the federal government are projected to rise to \$221.7 billion, with the government paying out \$341.1 billion in benefits.⁸ Furthermore, the current Civil Service Retirement and Disability Fund, which provides these pension funds to beneficiaries, is currently facing \$663 billion in unfunded liabilities that is projected to peak in 2023 at nearly 749 billion.⁹ If we do not adjust these benefits for future recipients, our retired federal employees may be faced with potential cuts to their benefits – as we have seen happen in other countries.

⁸ U.S. Office of Personnel Management, *Civil Service Retirement and Disability Fund Annual Report* (Washington, DC: (OPM, February 2011).

⁹ Congressional Research Service, *Federal Employees' Retirement System: Budget and Trust Fund Issues* (Washington, DC: CRS, October 20, 2011).

TABLE 3: Past and Projected Flow of Plan Assets (FERS)

| (Dollars in Billions) | | | | | | | | | | | | |
|-----------------------|-------------------|-----------------|-------------------------|-----------------------|---------------------|-------------------|--------------|----------------------|-------------------------|---------------|------------------------|----------------------|
| Fiscal Year | Employee Contrib. | Agency Contrib. | Treasury Amort. Payment | Postal Amort. Payment | Total Govt Contrib. | Investment Income | Total Income | FERS Benefit Payment | Transfer to (from) C&RS | Total Expense | Net Assets End of Year | Dynamic FERS UAL EOY |
| PROJECTED FLOW | | | | | | | | | | | | |
| 2010 | \$1.4 | \$20.9 | \$1.2 | \$0.0 | \$22.1 | \$20.1 | \$43.6 | \$5.5 | \$0.0 | \$5.5 | \$380.1 | \$9.0 |
| 2011 | 1.5 | 22.2 | 1.2 | 0.0 | 23.4 | 22.3 | 47.2 | 6.6 | 0.0 | 6.6 | 420.8 | 8.3 |
| 2012 | 1.6 | 23.7 | 1.2 | 0.0 | 24.9 | 24.7 | 51.2 | 7.7 | 0.0 | 7.7 | 464.2 | 7.6 |
| 2013 | 1.7 | 25.2 | 1.2 | 0.0 | 26.4 | 27.2 | 55.3 | 9.1 | 0.0 | 9.1 | 510.4 | 6.9 |
| 2014 | 1.8 | 26.7 | 1.2 | 0.0 | 27.9 | 29.9 | 59.5 | 10.6 | 0.0 | 10.6 | 559.3 | 6.1 |
| 2015 | 1.9 | 28.2 | 1.2 | 0.0 | 29.4 | 32.7 | 63.9 | 12.3 | 0.0 | 12.3 | 610.9 | 5.3 |
| 2016 | 2.0 | 29.8 | 1.2 | 0.0 | 31.0 | 35.6 | 68.6 | 14.2 | 0.0 | 14.2 | 665.3 | 4.5 |
| 2017 | 2.1 | 31.3 | 1.2 | 0.0 | 32.5 | 38.7 | 73.3 | 16.3 | 0.0 | 16.3 | 722.4 | 3.5 |
| 2018 | 2.2 | 32.9 | 1.2 | 0.0 | 34.1 | 42.0 | 78.3 | 18.7 | 0.0 | 18.7 | 781.9 | 2.6 |
| 2019 | 2.3 | 34.5 | 1.2 | 0.0 | 35.7 | 45.4 | 83.4 | 21.3 | 0.0 | 21.3 | 844.0 | 1.6 |
| 2020 | 2.4 | 36.1 | 1.2 | 0.0 | 37.3 | 48.9 | 88.6 | 24.2 | 0.0 | 24.2 | 908.4 | 0.5 |
| 2021 | 2.5 | 37.7 | 1.2 | 0.0 | 38.9 | 52.6 | 94.0 | 27.4 | 0.0 | 27.4 | 975.0 | -0.7 |
| 2022 | 2.6 | 39.3 | 1.2 | 0.0 | 40.5 | 56.4 | 99.4 | 30.8 | 8.1 | 38.9 | 1035.5 | 6.2 |
| 2023 | 2.7 | 41.0 | 1.7 | 0.0 | 42.7 | 59.8 | 105.2 | 34.4 | 26.4 | 60.8 | 1079.9 | 31.3 |
| 2024 | 2.8 | 42.7 | 3.6 | 0.0 | 46.3 | 62.3 | 111.4 | 38.2 | 27.2 | 65.4 | 1125.9 | 56.7 |
| 2025 | 2.9 | 44.4 | 5.5 | 0.0 | 49.9 | 64.9 | 117.7 | 42.1 | 28.1 | 70.2 | 1173.5 | 82.5 |
| 2030 | 3.5 | 54.1 | 15.8 | 0.0 | 69.9 | 79.5 | 152.9 | 65.7 | 29.9 | 93.6 | 1445.3 | 209.1 |
| 2035 | 4.2 | 65.4 | 26.3 | 0.0 | 91.7 | 97.9 | 193.8 | 89.4 | 28.9 | 118.3 | 1787.1 | 320.4 |
| 2040 | 5.0 | 78.7 | 34.7 | 0.0 | 113.4 | 121.6 | 240.0 | 119.4 | 33.7 | 143.1 | 2228.8 | 392.5 |
| 2045 | 6.0 | 94.4 | 42.1 | 0.0 | 136.5 | 151.9 | 294.4 | 154.1 | 16.3 | 170.4 | 2792.7 | 408.6 |
| 2050 | 7.2 | 113.3 | 46.7 | 0.0 | 160.0 | 190.7 | 358.0 | 192.2 | 8.6 | 200.8 | 3509.8 | 353.9 |
| 2055 | 8.6 | 136.2 | 44.6 | 0.0 | 180.8 | 239.5 | 428.9 | 234.6 | 3.4 | 238.0 | 4400.0 | 233.9 |
| 2060 | 10.4 | 163.7 | 35.2 | 0.0 | 198.9 | 297.4 | 506.7 | 285.3 | 1.1 | 284.4 | 5447.8 | 102.0 |
| 2065 | 12.5 | 196.8 | 24.9 | 0.0 | 221.7 | 364.5 | 598.7 | 341.1 | 0.2 | 341.3 | 6662.4 | -26.3 |
| 2070 | 15.0 | 236.7 | 15.4 | 0.0 | 252.1 | 442.4 | 709.5 | 409.9 | 0.1 | 410.0 | 8071.8 | -142.0 |
| 2075 | 18.0 | 284.5 | 8.0 | 0.0 | 292.5 | 533.4 | 843.9 | 491.9 | 0.1 | 492.0 | 9721.9 | -248.5 |
| 2080 | 21.7 | 342.0 | 3.4 | 0.0 | 345.4 | 640.7 | 1007.8 | 590.5 | 0.1 | 590.6 | 11671.9 | -356.9 |
| 2085 | 26.1 | 411.0 | 1.2 | 0.0 | 412.2 | 768.2 | 1206.4 | 709.6 | 0.0 | 709.6 | 13990.4 | -482.7 |

The financial problems in Greece have led to an agreement by the cabinet to cut pensions to help address their budget shortfalls. According to Greek government officials, there will be a 20 percent cut in pensions for current retirees, pensions paid to those younger than 55 will receive a cut of 40 percent for the amount exceeding 1,000 Euros, and wages will be lowered for 30,000 government employees.¹⁰ If we do not act now to transition future generations of federal employees into a retirement system that is in line with the private sector, by eliminating the defined benefit plan of pensions and reverting to a defined contribution plan through TSP, I believe we risk altering the pensions of those currently vested.

It must be emphasized that the choice is not between the current system and reform, but between reform or mandated cuts to the benefits of those currently vested in FERS. Reform must happen to ensure the sustainability of payments promised by the federal government to those who are currently vested in FERS. This will also help to limit the amount of hard-earned taxpayer dollars that will be required to pay for future federal retirees and save hundreds of billions of dollars over the next few decades.

This is simply a program that the American taxpayer can no longer afford and should not be required to pay for. Likewise, the federal government should stop misleading its employees and the American people about the affordability and sustainability of federal pension programs, especially since our federal government continues to dig our country deeper and deeper into debt.

¹⁰ Eleni Chrepa and Natalie Weeks, "Greece Speeds Budget Cuts to Ensure Aid as Transport Workers Hold Strike," *Bloomberg*, 22 Sep. 2010, <http://www.bloomberg.com/news/2011-09-21/greece-accelerates-cuts-to-wages-pensions-to-ensure-next-bailout-payment.html> (accessed 18 Jan. 2012).

Federal benefits will remain competitive with the private sector, and we will be able to save the American taxpayers hundreds of billions of dollars by eliminating the current defined benefit pension program for federal employees and Members of Congress.

I again thank Chairman Ross and Ranking Member Lynch for inviting me to testify today. I look forward to working with you and your subcommittee to ensure passage of the EPIC Act and additional bills to reform retirement benefits for future federal employees.

Mr. ROSS. Thank you, Mr. Griffin.

I now recognize the gentleman from Colorado's Sixth Congressional District, Mr. Coffman, for 5 minutes.

STATEMENT OF HON. MIKE COFFMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. COFFMAN. Thank you, Mr. Chairman, and Ranking Member Lynch.

I had the honor of serving in both the U.S. Army and the Marine Corps. And in the Congress of the United States, I have the opportunity to serve on the House Armed Services Committee. And I think Admiral Mullen, when he was chairman of the Joint Chiefs of Staff, testified before the Congress that the greatest threat to U.S. security is our national debt. He didn't say it was Al Qaeda. He didn't say it was North Korea or Iran. He said it was an internal problem, and that is America's national debt.

We in the Congress are going to have to exercise extraordinary leadership in navigating this country out of our debt crisis, and in doing so, we are going to have to ask the American people to make sacrifices, to include Federal employees and even our military, and so it is about leadership.

And if there is one thing I learned in both the U.S. Army and the Marine Corps about leadership, it was leading by example. Never ask anyone to do anything that you yourself would not be willing to do. And so I believe that the Congress of the United States has to lead by example to give us the credibility to attack these very difficult issues.

Last September, I introduced House Resolution 2913, and what House Resolution 2913 does is it in effect ends the congressional pension program. It does so by honoring all accrued benefits that Members have earned under this program, but not allowing any more benefits to accrue. Members of Congress pay in 1.3 percent of their salary into this pension program. It is a factor of 1.7 percent is the benefit they accrue for the first 20 years, 1 percent thereafter, and so what it would say is that we will honor anything that has been accrued up to the effective date of the bill, and for those Members who are not vested yet, it takes 5 years to be vested, then they would certainly get that 1.3 percent refunded to them.

I believe that the Founding Fathers of this country envisioned a Congress where its Members came from other professions to serve in the Congress and didn't see the Congress as a career in and of itself, where they would be reliant upon the taxpayers of the United States to provide them a pension for the rest of their lives, and so I feel that this also fits in that vision by doing away with the defined benefit pension program.

We would still have a defined contribution pension program that is available to all Federal employees, whereby members can put up to \$17,000 into the defined contribution pension plan and have a 5 percent match of their salary that is matched by the taxpayers of the United States, and I think this is more in line with what our private sector counterparts get all across America, and so, again, I think this is about leading by example. This is about Congress making a sacrifice to show the American people that we have

skin in the game with them during these challenging economic times. So, Mr. Chairman and Ranking Member Lynch, I look forward to your questions.

[The prepared statement of Hon. Mike Coffman follows:]

MIKE COFFMAN
6TH DISTRICT, COLORADO

ARMED SERVICES COMMITTEE
NATURAL RESOURCES COMMITTEE
SMALL BUSINESS COMMITTEE

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Testimony for

Oversight and Government Reform

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

Representative Mike Coffman

Wednesday, January 25, 2012

Mr. Chairman and Ranking Member: Thank you for the opportunity to appear before you today and discuss a subject of great importance to me - congressional benefit reform.

Approval ratings for members of Congress are at an all-time low. A Gallup poll last month found only 11 percent of the American public approves of how Congress conducts itself. In the 35 year history of polling Americans on Congress, this is the lowest approval rating they have measured.

We have to ask ourselves, why? There are certainly a lot of contributors to low approval ratings, but I think a large part is because of the disconnect between taxpayers and the government that represents them. Washington, DC, simply does not have the same financial pressure that squeezes the rest of America. The federal government has the power to continually borrow and spend money that we do not have, federal lawmakers receive annual pay raises automatically unless they act to stop it, and the congressional pension system is vastly superior to what is available to the average American.

I appreciate that we are here today to discuss civil service retirement. My own particular focus is on Congressional reform, but I certainly don't want to forestall any broader action. The language the House passed last December, HR 3630, was a good step towards necessary reform. But I believe that Congress must take a bolder step. Whatever reforms we enact for civil service retirement should be based on a platform that involves the end of the Congressional pension plan.

I served my country in both the U.S. Army and in the Marine Corps and I was taught from the beginning of my military career that a fundamental tenet of leadership is to lead by example. I learned that leaders should never ask others to do anything that they themselves would be unwilling to do. Since it is obvious that we will have to enact reforms to government spending, which includes changes to the civil service system, we also must address congressional pay and benefits in a strong and meaningful way.

Accordingly, last September, I introduced HR 2913, which would terminate the defined benefit pension plan available to members of Congress. It is important for members of Congress to demonstrate that, during these challenging economic times, we have "skin in the game." Our citizens need to understand and appreciate that as a precursor to significant spending reform, Congress is willing to curb their perks and will start by eliminating a benefit which is not available to the vast majority of Americans.

I am sure you are all familiar with the background on the move away from pension plans in our nation. As former OMB Director Peter Orszag has pointed out, the rest of the country, the part that has to balance its books, has moved away from defined benefit plans towards defined contribution plans. Twenty five years ago, 89 of the Fortune 100 companies offered a traditional defined-benefit pension plan. Today, only 13 of the Fortune 100 companies offer a traditional defined-benefit plan, and 70 offer only a defined-contribution plan.

The real blow here is that Congress has both. Congressional pensions are supplemented by the Thrift Savings Plan, a defined contribution program. We should be able to get by on this, as the rest of the country seems to do.

It is my belief that our founding fathers envisioned Congress as a body of citizen legislators, people who were successful outside elected federal office and who would not be beholden upon their service in Congress to provide for them for the rest of their lives. If we vote to end the Congressional pension plan and demonstrate to the American people that we understand we are servants of the people and not a political elite exempt from the challenges felt by most Americans today, it will do much to restoring the trust we should have.

Under my bill, members of Congress will still be required to pay into Social Security and may still participate in the defined contribution Thrift Savings Plan available to all federal employees. My legislation would also honor any retirement benefits already accrued by members of Congress prior to its enactment. In addition, it would reimburse members who will have served for less than five years for the 1.3% of salary contributions already paid into the pension plan from which they will never collect.

The issue of the congressional pension is easily understood by the voting public. It always generates immediate enthusiasm. My bill also enjoys the support of three prominent taxpayer advocacy groups: Americans for Tax Reform, Citizens Against Government Waste and the National Taxpayers Union have come out to publicly support my legislation.

Given our 15 trillion dollar national debt, ending the congressional retirement plan may be little more than a symbolic move toward fiscal responsibility. However, it will be viewed as important by the American people, as it is a step toward changing the culture of Washington, D.C.

We in Congress have to make tough decisions to find a way out of this crisis. This will involve asking the American people to make sacrifices related to their reliance on a government that has grown much larger than our economy will ever be able to support. In these extremely difficult economic times, Congress needs to set an example for the country and I think that ending our pension plan would be a good start.

Mr. ROSS. Thank you, Mr. Coffman.

Mr. GRIFFIN. Mr. Chairman.

Mr. ROSS. Yes, Mr. Griffin.

Mr. GRIFFIN. I just want to ask permission I be allowed to go catch my plane.

Mr. ROSS. Sure.

Mr. GRIFFIN. Thank you, appreciate it.

Mr. ROSS. Thank you, Mr. Griffin.

The gentleman from the 17th Congressional District of Illinois, Mr. Schilling, you are recognized for 5 minutes.

STATEMENT OF HON. ROBERT T. SCHILLING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. SCHILLING. Thank you, Chairman Ross and Ranking Member Lynch.

I appreciate the opportunity to be here today to testify. When I came to Congress, there was several different issues to discuss, and what I did was I put together a bill 2397, H.R. 2397. I call it the Congressional Retirement Age Act. It is a bipartisan money-saving piece of legislation that provides an opportunity for Congress to lead by example.

And in Congress, we often talk about what we can do today to make things better for our kids and our grandkids. To achieve this, I think we are going to have to make some tough decisions and then some easy decisions. The Congressional Retirement Age Act represents a small commonsense step we can take toward reevaluating the pensions that the Members of Congress are eligible to receive.

When I ran for office, I made a contract with the people of the 17th District of Illinois, and one of the elements of this contract was to reject the congressional pension. This was a personal decision, rooted in the belief that our Founders did not set Congress up to be a career. And I am not here to preach to anyone. My goal is to advocate for good policy change basically.

As you know, Members of Congress are eligible to receive a pension at the age of 62 after 5 years of Federal service. However, if a Member has served for 25 years, they can receive it as early as age 50. I can tell you that I have talked to many of my constituents about this issue and am hard pressed to recall one person that believes Congress should receive a pension, let alone as early as age 50, and this especially rings true when you consider that the earliest the folks back home can retire and receive their Social Security benefits is age 65.

The first bill I introduced as a Member of Congress is H.R. 2397. It simply ties a Member of Congress' eligibility to receive pension benefits to the Social Security retirement age. Regardless of whether or not you believe Congress should be getting a pension, I hope that we can all agree that Members of Congress who do elect to receive the pension benefits should not be able to do so before their constituents can access Social Security benefits.

I believe that this is a bipartisan effort with 26 cosponsors in the House, and then Senator Sherrod Brown of Ohio has spearheaded the effort in the Senate. The Congressional Retirement Age Act has

the support of the National Taxpayers Union and the Taxpayers Protection Alliance.

According to a preliminary CBO staff estimate, this legislation would save \$10 million to \$15 million over 10 years. This is real money. At a time when we are facing a national debt of more than \$15 trillion, all the cost savings we can get definitely count.

Again, I would just like to thank you for opportunity to speak on this legislation today, and I would also like to thank Chairman Ross and Congressman Chaffetz for cosponsoring H.R. 2397. I would welcome the support of all of the Members in Congress on this bill and look forward to working together and hope that we can advance the Congressional Retirement Age Act.

[The prepared statement of Hon. Robert T. Schilling follows:]

January 25, 2012

Congressman Bobby Schilling

**Testimony before the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
House Committee on Oversight and Government Reform**

Chairman Ross, Ranking Member Lynch and members of the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy:

I appreciate the opportunity to appear before you today to discuss the issue of pensions for Members of Congress and in particular, H.R. 2397 the Congressional Retirement Age Act. This is bipartisan, money saving legislation that provides an opportunity for Congress to lead by example.

In Congress we often talk about what we can do today to make a better tomorrow for our grandchildren. To achieve this, I think we're going to have to make some tough decisions and some easy decisions. The Congressional Retirement Age Act represents a small, common-sense step we can take today towards re-evaluating the pensions that Members of Congress are eligible to receive.

When I ran for office, I made a contract with the people of the 17th District of Illinois. One of the elements of this contract was to reject the congressional pension. This is a personal decision rooted in the belief that our founders did not set Congress up to be a career. I am not here today to preach at anyone. My goal is to advocate for a good policy change.

As you know, Members of Congress are eligible to receive a pension at age 62 after five years of federal service. However, if a member has served for 25 years, they can receive a pension at age 50. I can tell you that I have talked to many constituents about this issue and am hard pressed to recall one person that believes Congress should receive a pension, let alone as early as age 50. This especially rings true when you consider that the earliest that folks we represent back home can receive Social Security benefits is age 65.

The first bill I introduced as a member of Congress, H.R. 2397, simply ties a member of Congress' eligibility to receive pension benefits to the Social Security retirement age. Regardless of whether or not you believe Congress should be getting a pension, I hope that we can all agree that Members who do elect to receive pension benefits, should not be able to do so before their constituents can access Social Security benefits.

This is a truly bipartisan effort with 26 cosponsors in the House. Senator Sherrod Brown of Ohio has spearheaded this effort over in the Senate. The Congressional Retirement Age Act has the support of the National Taxpayers Union and the Taxpayers Protection Alliance. According to a preliminary CBO staff estimate, this legislation would save to \$10 to \$15 million over ten years. This is real money and at a time when we are facing a national debt of more than \$15 trillion, all cost savings count.

Again, thank you for the opportunity to speak on this legislation today. I would also like to thank Chairman Ross and Congressman Chaffetz for cosponsoring H.R. 2397. I would welcome the support of all members of Congress on this bill. I look forward to working together and hope that we can advance the Congressional Retirement Age Act.

Bobby Schilling
Member of Congress

Mr. ROSS. Thank you, Mr. Schilling.

Mr. SCHILLING. And I also have a——

Mr. ROSS. A plane to catch?

Mr. SCHILLING. Yeah.

Mr. ROSS. Have a safe trip.

Mr. SCHILLING. Thank you very much. Have a great one.

Mr. ROSS. Thank you for taking the time.

The gentleman from Florida's Fifth Congressional District, my colleague Mr. Nugent, you are recognized for 5 minutes.

STATEMENT OF HON. RICHARD B. NUGENT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. NUGENT. Well, first of all, I would like to thank the committee and particularly you, Chairman Ross, and Ranking Member Lynch for allowing us to speak here today.

I came to D.C. in 2010 as a new Member at orientation week like everybody else, and I met with the benefits office to talk about the health care benefits, the Thrift Savings Plan, and other pension plans. During that meeting, I turned down the health insurance plan. I didn't think that I should have better benefits than anybody at the Sheriff's Office where I just retired. I did that because I believe I am here representing the people of the Fifth District, Congressional District of Florida. I am not here to enrich myself but, rather, serve my community, my neighbors, and my Nation.

That is why to this day, my wife and I buy health insurance, which we pay for out of our own pocket. This decision costs us over \$10,000 a year.

During that meeting, I also tried to opt out of the congressional pension fund, FERS, for the same reason. I also asked if there was a way to contribute to the Thrift Savings Plan without getting a government match for my investment. Frankly, I was shocked when the benefits representative told me that I was legally required to accept a congressional pension as long as I was here for at least 5 years. Similarly, I couldn't contribute to the TSP without receiving a Federal match of up to 5 percent. Even more, if I didn't put a single penny, not a single penny into the TSP, the government would still contribute to the match of 1 percent of my salary without any cost to me.

Once I was sworn in, I dug into this issue further to try to figure out why, exactly, I was legally prohibited from choosing not to participate in the Federal Employee Retirement System. What I found out was until 2004, Members of Congress could opt out to decline coverage under the Federal Employee Retirement System. In fact, to this day, anybody elected to this body before September 30, 2003 continues to be able to decline the Federal Employee Retirement System coverage. It is only Members of the House of Representatives, not even Senators, entering office of September 30, 2003 who are legally obligated to participate in the Federal Employee Retirement System. Why are Senators allowed to opt out and not Representatives? Why are folks elected before September 30, 2003 allowed to opt out at this time but not after that date? And, frankly, I really don't know.

What I do know is this, I was a cop for 38 years, and for the last 10 of those years, I was sheriff of Hernando County, Florida. That

was my career, and what I am doing here in the House of Representatives is serving my country. As I see it, you get a pension for your career, not for your service. Congress is not and will never be my career. That is why I introduced H.R. 981, Congress is Not a Career Act.

This bill would simply put Members of Congress like me, elected to the House of Representatives after September 2003, on the same footing as those folks that were here longer than us. I want to make it clear that Congress is Not a Career Act does not require anybody to give up a pension. Additionally, supporting my bill does not commit you to opting out of the Federal Employee Retirement fund. It simply says that you will have a choice.

H.R. 981 gives Members the choice of participating in the Thrift Savings Plan without receiving the Federal match. Again, the bill doesn't require anybody to do something nor does it prohibit anybody from participating in anything. It simply says that Members should have the option to invest in their future without having the taxpayers contribute to that investment.

As you all may know, all three of my sons are active duty members of the U.S. Army. They and their brothers and sisters of arms also have a TSP program that they can contribute to. However, the majority of service members do not receive any type, any type of Federal match for their TSP contribution. I can't fathom receiving a TSP match while my kids and other service members fighting for our freedoms don't get a match of their own.

The Congress is Not a Career Act is not about denying anybody benefits they are rightly entitled to. It is about allowing those of us who don't view this institution as a career and don't think we should get a pension for serving our country, who don't think we should be enriching ourselves while sitting in the People's House the ability to opt out of the Federal Employee Retirement System and the Federal match to our Thrift Savings Plan. I was amazed that you become vested in the Federal system after simply 5 years.

With that, I really want to thank this committee for listening to all of us today in regards to how we can restructure and bring sanity back to the Federal Government. When we are at an all-time low, it is about us acting to restore faith in this body that we so proudly serve, the public of this United States, and with that, I yield back the balance of my time.

[The prepared statement of Hon. Richard B. Nugent follows:]

**Testimony of Rep. Richard Nugent Before the
Committee on Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy
January 25, 2012**

First, I want to take a moment to thank the Subcommittee and especially Chairman Ross and Ranking Member Lynch for the opportunity to speak before you today.

When I came to D.C. in 2010 for the new member orientation week, like everybody else, I met with the benefits office to talk about healthcare benefits, the Thrift Savings Plan, and the pension plans. During that meeting, I turned down the House health insurance plan. I didn't think I should have any better benefits than anybody at the Sheriff's Office. I did that because I believe that I am here, representing the people of Florida's 5th Congressional District. I am not here to enrich myself but, rather, to serve my community, my neighbors, and my nation. That's why, to this day, my wife Wendy and I buy health insurance, which we pay for out of our own pockets. This decision costs us about \$9,000 a year. During that meeting, I also tried to opt out of the congressional pension system, FERS, for the same reason. I also asked if there was a way to contribute to the Thrift Savings Program without getting a government match for my investment.

Frankly, I was shocked when the benefits representative told me that I was legally required to accept a Congressional pension, as long as I was here for at least five years. Similarly, I couldn't contribute to a TSP without a federal match. Even more, if I didn't put a single penny into the TSP, the government would still contribute a match of one percent of my salary, without any cost to me.

Once I was sworn in, I dug into this issue to figure out why, exactly, I was legally prohibited from choosing not to participate in FERS. What I found out is that until 2004, all members of Congress could opt to decline coverage under FERS. In fact, to this day, anybody elected to Congress before September 30, 2003 continues to be able to decline FERS coverage. It is only members of the House of Representatives, not Senators, entering office after September 30, 2003 who are legally obligated to participate in FERS.

Why are Senators allowed to opt out but not Representatives? Why are folks elected before September 30, 2003 allowed to opt out but not after that date? Frankly, I don't really know.

What I do know is that I was a cop for 38 years. For the last ten of those years, I was Sheriff of Hernando County, Florida. That was my career. What I am doing here in the House of Representatives is serving my country. As I see it, you get a pension for your career, not your service. Congress is not and will not be my career. That is why I introduced H.R. 981, the *Congress is Not a Career Act*.

This bill would simply put members of Congress like me, elected to the House of Representatives after September 2003, on the same footing with the people who have been here longer than us. I want to make it clear that the *Congress is Not a Career Act* does not require

anybody to give up a pension. Similarly, supporting my bill doesn't commit you to opting out of FERS. It just simply says that we should have a choice.

H.R. 981 also gives members the choice of participating in the Thrift Savings Plan without getting a federal match. Again, the bill doesn't require anybody to do something nor does it prohibit anybody from participating in anything- it simply says that members ought to have the option to invest in their future without having taxpayers contribute to that investment. As you all may know, all three of my sons are active duty members of the Army. They, and their brothers and sisters in arms, also have a TSP plan that they can contribute to. However, the majority of service members do not receive any type of federal match for their TSP contributions. I can't fathom getting a TSP match while my kids and other service members fighting for our freedom don't get a match in theirs.

The *Congress is Not a Career Act* is not about denying anybody benefits to which they are rightly entitled. It's about allowing those of us who don't view this institution as a career, who don't think that we should get a pension for serving our country, who don't think we should be enriching ourselves while sitting in the peoples' House, the ability to opt out of the Federal Employee Retirement System and the federal match to our Thrift Savings accounts.

I was amazed when I learned that I would become vested in the federal pension system after only five years of serving in the House. At a time when Congressional approval is at near historic lows and when we are being forced to cut even the most worth of federal programs, I believe my bill would help bring some trust and respect back to the House of Representatives while also saving the American taxpayers money, as small an amount as it may be compared to the big picture.

Again, I want to thank the Subcommittee for offering me the chance to testify before you today. When I introduced the *Congress is Not a Career Act*, I heard from a lot of people here in Congress, back home, and even in the media that this bill would never go anywhere and get lost in the jumble of the thousands of bills introduced in this House every year. This Subcommittee hearing shows that those people were wrong, that we are committed to changing the way Congress works from the inside, whether it is through H.R. 981 or any of the other bills we're discussing here today.

I appreciate this opportunity and I know my constituents in Florida's 5th District, who have almost universally supported this bill, share in my appreciation.

With that, I yield back the balance of my time.

Mr. ROSS. Thank you, Mr. Nugent.

I now recognize the gentleman from Illinois's 10th Congressional District, Mr. Dold, for 5 minutes.

**STATEMENT OF HON. ROBERT J. DOLD, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF ILLINOIS**

Mr. DOLD. I certainly want to thank the committee.

And Chairman Ross, thank you for holding the hearing.

Ranking Member Lynch, thank you.

I am here today to talk a little bit about the Congressional Integrity and Pension Forfeiture Act, which is really an expansion of a law that was signed the Honest Leadership and Open Government Act in 2007, and while you have a copy of my statement, what I thought I would do is just summarize the gist of it and why we are putting forth this bipartisan piece of legislation.

Right now, you have the ability to, if you are a felon, to receive a pension from the taxpayers of the United States. Congressional Research Service has said over the past 50 years that we have had Members of Congress that have been convicted of at least 16 different felonies, including receiving illegal gratuities, bribery, conspiracy, extortion, income tax evasion, embezzlement, theft of public funds, and yet these individuals would be eligible to receive a pension, at least until 2007, and that law became the law of the land.

Unfortunately, it only covers Members of Congress while currently serving. We have had other instances and other instances more recently in the State of Illinois where we have had former Members of Congress that have gone on to hold elective office and become—and I believe should be held to a higher standard by their constituents that have violated the law and become felons, and yet they are still eligible to receive their pensions from the American taxpayer. I think this is wrong.

I think that if you violate a public trust and commit a felony under the certain areas that have been provided, expanded, that you should forfeit that pension. Right now, we are talking about not a big sum of money—it is about \$800,000 a year that if this law were to have been enacted would not have to be paid out to former Members of Congress.

I think this is a commonsense piece of legislation, one that should pass the House by 435 votes and pass the Senate unanimously.

We continually hear about how Congress is passing laws that are not holding themselves up to that law first and foremost, and I hear that back in my district regularly, and I am confident that most of you do as well. We need to be held, I think, to a higher standard. And if we violate that public trust, we should absolutely have skin in the game to say we will not be able to receive taxpayer funded pensions for the remainder of our lives.

Now, I recognize that there is some misconceptions about what the pensions are out there for Members of Congress, that you vest in 5 years and that it is 1.7 percent, so it is not a huge sum of money, but what it does do is it lets the American public know that we, indeed, in this body will hold ourselves to a higher standard.

This is an expansion of the already existing Honest Leadership and Open Government Act. I think it makes a lot of sense. It is one that I think we should act on actually immediately, and I don't want to belabor the point, so I am happy to answer your questions, and thank you again for the opportunity to join you.

[The prepared statement of Hon. Robert J. Dold follows:]

1/25/12

**Statement by U.S. Representative Robert J. Dold
Tenth District, Illinois
House Oversight and Government Reform
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
Hearing on
“Retirement Readiness: Strengthening the Federal Pension System”**

Thank you Mr. Chairman and Ranking Member Lynch for inviting me to testify at today’s subcommittee hearing on how Congress can strengthen retirement benefits and the pension system for federal employees.

Mr. Chairman, according to the Congressional Research Service, over the past 50 years, Members of Congress have been convicted of at least sixteen different felonies including receiving illegal gratuities and bribery, conspiracy, extortion, income tax evasion, and embezzlement and theft of public funds.

As trusted public servants, our constituents expect us to serve with the highest level of integrity and expect that we be held accountable for our actions. Central to that public trust is an understanding that Members of Congress who are convicted of public corruption crimes should not be entitled to the benefit of a taxpayer-funded, congressional pension.

However, Mr. Chairman, a recent National Taxpayers Union study estimates that “federal lawmakers convicted of various crimes are currently drawing a combined pension benefit of more than \$800,000 per year.” This figure does not even include convicted lawmakers who are so far ineligible for receiving their pension, or whose public corruption cases are still pending in the courts. As elected officials, I believe we must hold ourselves to a higher standard as we have pledged to uphold, protect, and defend the Constitution and the laws of the United States.

On September 14, 2007, the Honest Leadership and Open Government Act (P.L. 110-81) was signed into law by President Bush after receiving broad, bipartisan support in both the House and the Senate. This sweeping reform forces Members of Congress to forfeit their congressional pension if they are convicted of any of ten covered public corruption crimes.

Mr. Chairman, while the Honest Leadership and Open Government Act made necessary changes to the rules governing a Member’s pension, the law holds that Members only forfeit their pension if the crimes for which they were convicted occurred *while* they served in Congress. Unfortunately, we have seen former Members of Congress convicted of felonies following their congressional tenures. For instance, former Congressmen John Rowland, and more recently, Rod Blagojevich, were both convicted of public corruption crimes while they served as Governors of their respective states. Both of these convicted felons who shattered the public trust however, Mr. Chairman, remain eligible for their taxpayer-funded federal pensions.

This is why I joined with my good friend and colleague from Illinois, Representative Quigley, to introduce H.R. 2162, the Congressional Integrity and Pension Forfeiture Act of 2011. As the National Taxpayer Union study illustrates, current law needs to be strengthened to ensure that both current and former Members of Congress who breach federal corruption laws, and thus the public trust, do not receive a taxpayer-funded congressional pension. No present or former Member of Congress deserves a federal pension if he or she is convicted of a public corruption felony while still serving in a publicly elected office, regardless of when they committed the corrupt act in question.

Our legislation builds upon the Honest Leadership and Open Government Act to prohibit a former Member of Congress from receiving a congressional pension if they are convicted of a covered offense that occurred while subsequently serving in *any* publicly-elected office – as the President of the United States, Vice President, or as an elected official of a State or local government.

Additionally, the Congressional Integrity and Pension Forfeiture Act strengthens current law by expanding the list of covered public corruption crimes to include twenty additional public corruption crimes. Some additional offenses would include wrongfully influencing or injuring an officer or juror, attempting to evade a tax, and willfully violating laws related to the promise of appointment by a candidate. Mr. Chairman, in my submitted record there is a full list of the twenty common-sense additions our legislation seeks to add to the list of covered offenses.

Mr. Chairman, in the face of soaring deficits and a crippling debt, U.S. taxpayers should not be on the hook for the retirement benefits of elected lawmakers convicted of a felony. A breach of law by a trusted, elected official, is a serious offense that should have serious consequences. This legislation will help in our ongoing efforts to restore public trust in this institution and those who serve in it.

I thank you again for calling this important hearing and allowing me to come before the Subcommittee to share this legislation designed to further protect taxpayers from exposure to crimes committed by those they elect as representatives in Washington. I would also like to thank the other Members here today who have also put forth serious reforms to the Member pension program and who recognize the importance of protecting taxpayers and restoring public trust.

My office will be happy to answer any additional questions about H.R. 2162.

Offenses Requiring Forfeiture of Congressional Pensions

| P.L. 110-181 | Congressional Integrity and Pension Forfeiture Act Additions |
|---|--|
| <p>Title 18, section: 201: bribery of public officials and witnesses, 219: acting as agents of foreign principals, 1343: wire fraud including as part of a scheme to deprive citizens of honest services, 1957: engaging in monetary transactions in property derived from specified unlawful activity, 1512: tampering with a witness, victim, or an informant, chapter 96: relating to racketeer influenced and corrupt organizations, 371: conspiracy to commit offense or to defraud United States to the extent that the conspiracy constitutes an act to commit one of the offenses listed above, 1621: perjury in relation to any offense listed above, or 1622: subordination of perjury in relation to any offense listed above</p> <p>104(a) of the Foreign Corrupt Practices Act of 1977: bribery of foreign officials</p> | <p>Title 18, section: 203: compensation to Members of Congress, officers, and others in matters affecting the Government, 204: practice in United States Court of Federal Claims or the United States Court of Appeals for the Federal Circuit by Members of Congress, 286: conspiracy to defraud the Government with respect to claims, 287: false, fictitious or fraudulent claims, 597: expenditures to influence voting, 599: promise of appointment by candidate, 602: solicitation of political contributions, 606: intimidation to secure political contributions, 607: place of solicitation, 641: public money, property or records, 666: Theft or bribery concerning programs receiving Federal funds 1001: statements or entries generally, 1341: frauds and swindles, 1503: influencing or injuring officer or juror, 1505: obstruction of justice, 1951: interference with commerce by threats or violence, 1952: interstate and foreign travel or transportation in aid of racketeering enterprises, 1956: relating to laundering of monetary instruments, or 1962: prohibited activities/racketeering</p> <p>Section 7201 of the Internal Revenue Code of 1986: attempt to evade or defeat tax</p> |

Mr. ROSS. Thank you, Mr. Dold, and in the interest of time and pursuant to a previous agreement, we will not be asking questions of the Members, but I believe, Mr. Connolly, you would like to make a statement?

Mr. CONNOLLY. No, Mr. Chairman. Well, thank you. I just wanted to participate.

I am very interested in hearing our colleagues and certainly will take their proposals under advisement. I continue to believe on the broader point in terms of public service, you know, we have fine, upstanding civil servants who serve this country, whether they wear the uniform or they don't. And I would hope that we here in Congress, as we talk about benefits and compensation, provide the dignity and respect those civil servants have earned and that we make sure that we take care to ensure that their compensation is fair and reflects that dignity and respect.

And with that, I yield back, Mr. Chairman.

Mr. ROSS. Thank you, Mr. Connolly.

I want to thank the Members for appearing today and thank you for your efforts and look forward to working with you on these pieces of legislation. This subcommittee now stands adjourned. Thank you.

[Whereupon, at 11:25 a.m., the subcommittee was adjourned.]

[The prepared statements of Hon. Elijah E. Cummings and Hon. Gerald E. Connolly and additional information submitted for the hearing record follow:]

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ONE HUNDRED TWELFTH CONGRESS

Congress of the United States House of Representatives

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Opening Statement Ranking Member, Elijah E. Cummings Committee on Oversight and Government Reform

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy Hearing on "Retirement Readiness: Strengthening the Federal Pension System"

January 25, 2012

Thank you, Chairman Ross, for yielding. I agree wholeheartedly with the comments made by Ranking Member Lynch. The title of this hearing is "Strengthening the Federal Pension System." But the proposals being discussed do the exact opposite: they weaken the promises made to Federal employees and are counterproductive to employee morale, retention, and productivity.

Federal workers are the backbone of our government. They support our troops in the battlefield and provide care upon their return. They protect our borders, safeguard our food supply, ensure that seniors receive their Social Security checks, and track down terrorists like Osama bin Laden. They carry out each and every federal program, service, and initiative.

Unfortunately, some in the majority want to reward Federal workers by extending their two-year pay freeze, slashing retirement benefits, and arbitrarily reducing the size of the Federal workforce.

The majority argues that Federal workers are overpaid. This is untrue, according to the Bureau of Labor Statistics. They found that Federal employees are paid about 26% less than their private sector counterparts with comparable skills and education levels.

Federal workers have already made tremendous sacrifices to address our nation's budget deficits. They have given up the equivalent of \$60 billion, which was taken away in the current two-year pay freeze. They have done their part, and now it is time for others to do theirs. The only workable solution to our country's budget deficit is a balanced one that includes shared sacrifice, including from the most wealthy among us.

I stand with other Members on this side of the aisle in our commitment to oppose any additional measures that would result in further cuts to Federal employee pay or benefits. The work our Federal employees perform is simply too valuable to do otherwise.

I thank our witness for being here with us this morning and look forward to a constructive debate on the true value of our dedicated Federal workforce.

Contact: Ashley Etienne, Communications Director, (202) 226-5181.

Statement of Congressman Gerald E. Connolly
Federal Workforce and Postal Service Subcommittee
January 25th, 2012

Once again, we are reminded of how easy it is to denigrate public service for short term political gain. We are considering multiple federal pension proposals today, which are marginally different but identical in the sense that they use disgust with Congress to attack federal employees and federal service.

Not so long ago, prominent members of both parties honored public service. President Kennedy called on Americans to serve in the federal government, building on a civil service tradition which dates at least to the Harding administration. Congressional leaders such as Senator Claude Pepper, Congressman Jack Brooks, Senator Inouye, Senator Voinovich, Congressman McHugh, and my predecessor Congressman Tom Davis all collaborated on bipartisan efforts to strengthen the civil service. Sadly, a special interest assault on public employees has shattered that bipartisan consensus. Organizations like the American Legislative Exchange Counsel, Heritage Foundation, and other anti-public employee groups have served as a front for wealthy ideologues like the Koch brothers to attack hard working public servants. Those same funders have eliminated Republican moderates in Congressional and state legislative primaries, leading to increased factionalism and gridlock both in the federal and state legislatures.

Today we are harvesting the fruit of those efforts, as several members propose legislation to reduce public pensions under the guise of fiscal responsibility. These legislative proposals seek to alienate average citizens from their government by portraying federal employees and members of Congress as overpaid and out of touch. Instead of tearing down federal employees, we should be asking how to implement economic policies which could provide greater retirement security for public and private sector pensioners alike.

The stock market collapse and subsequent Great Recession is a timely reminder of the risks of replacing defined benefit with defined contribution pensions, not to mention privatization of Social Security. Eliminating defined benefit portions of the Federal Employees Retirement System could expose patriots across the country to economic dislocation or privation during periods of economic downturns, as stock-based savings can decline dramatically in value. Although some portray federal employees as an inside-the-beltway cabal, in reality 85% of civil servants do not live in this region. Alaska, Texas, and Wyoming are among the states with relatively high percentages of federal employees. Federal civilian employees guard the border in Arizona, protect agriculture from invasive pests through port inspections in California, and track down internet child predators all over the world. While continued attacks on federal employees may inflame one party's base, the longer term results are degradation of quality of life and real threats to public safety across America.

Regrettably, this Subcommittee has not held a single hearing on the pressing issue of recruiting and retaining federal employees to replace retiring baby boomers. I request respectfully that this be the subject of the next hearing on federal workforce issues. Using a combination of aggressive recruitment, such as through improved internship programs, and comprehensive retention strategies, including improved deployment of telework, we could provide better, more efficient services to Americans. We won't accomplish this objective if we remain fixated on the Republicans' one trick pony which continues to trample the honor of federal employees and federal service.



Congressional Retirement Age Act of 2011

May 20, 2011

By Pete Sepp

*The Honorable Sherrod Brown
United States Senate
Washington, DC 20510*

Dear Senator Brown:

On behalf of the 362,000-member National Taxpayers Union (NTU), I write to offer our strong support for your legislation, S. 742, the Congressional Retirement Age Act of 2011. If enacted, your sensible bill would link the eligibility age of defined-benefit pensions for Members of Congress to the retirement age for Social Security.

NTU has long taken an interest in reforming Congress's retirement system, which is among the most generous offered at any level of government. As a Congressional Research Service (CRS) report from 1993 demonstrated, lawmakers could, under some circumstances, enjoy a replacement rate of "high-three" salary averages that bested those for a similarly-salaried executive branch employee, by 50 percent or more. This difference aside, the very structure of the plan has incited the public's ire to a degree matched only by Congress's provision for automatic salary adjustments.

Over the past several decades, we have advocated for policies such as limiting the Congressional plan's Cost of Living Adjustments, harmonizing the accrual rate of the benefit formula with that of rank-and-file federal employees, or eliminating the defined benefit portion altogether in favor of a modified defined contribution arrangement under the federal Thrift Savings Plan (our preferred option). Your legislation would approach reform in a novel and commendable way, by setting a new retirement age for the system based on that of Social Security's. This one change, while seemingly small, would actually make a great deal of progress toward the more equitable outcomes taxpayers seek.

Throughout its institutional history of pursuing greater accountability for Congressional perquisites, NTU has provided detailed projections of individual lawmakers' retirement benefits as a public service, owing to federal officials' refusal to do so by invoking privacy concerns. During this time, we have discovered that multi-million-dollar lifetime payouts for Members of Congress are not solely the result of high accrual rates applied to extraordinary lengths of service. In many cases, they are the product of an extremely lucrative early retirement option. For example, although Executive Branch workers under the Federal Employees Retirement System can look forward to an unreduced pension at age 60 after 20 years of service, Members of Congress may do so as early as age 50.

The time has come for a substantial overhaul of the Congressional retirement package, and S. 742 is the ideal tool with which to begin the task. CRS estimated that at the beginning of October 2009, defined benefit payments to former Senators and Representatives would amount to more than \$26 million for the year ahead. The typical Congressional retiree's lifetime payout far exceeds his or her contributions into the plan, creating a significant subsidy from taxpayers – many of whom, in turn, must fund their own retirements to a large degree. Your legislation would help to relieve part of this burden, and provide leadership-by-example on one of the most important issues facing America today: retirement funding.

To be clear, NTU believes that fundamental changes to Social Security are necessary for the program's (and the nation's) future survival, including acceleration of the retirement age, more realistic benefit-calculation processes, and means-testing. Our members are also greatly concerned about the sustainability of government employee retirement plans, and have been among the most vocal proponents of introducing "pay up-front" defined contribution systems at the state and local level. In our view such proposals (even in the presence of the Thrift Savings Plan) deserve consideration at the federal level too.

We understand that you may not share these goals, but whatever our respective aims may be, we can agree

that Congress should strengthen its fiscal and moral credibility with the American people by bringing an appropriate measure of restraint to its own retirement system. Likewise, we hope that all of your colleagues, regardless of their philosophies toward Social Security and other government retirement programs, can see the wisdom in cosponsoring and passing S. 742. You have offered one of the few serious attempts to reform Congressional pensions in recent memory, and our members look forward to helping you enact your legislation in this session. A roll call vote in favor of the Congressional Retirement Age Act of 2011 will be included as a pro-taxpayer vote in NTU's annual Rating of Congress.

Sincerely,

Pete Sepp

Executive Vice President

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Phone: 703.683.5700 | Fax: 703.683.5722 | E-mail: ntu@ntu.org
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Mr. Charles Grimes
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Questions for Mr. Charles Grimes
Chief Operating Officer
The Office of Personnel Management

Chairman Dennis Ross
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

Hearing on "Retirement Readiness: Strengthening the Federal Pension System"

- 1) How much do employing Federal agencies contribute toward an employee's total retirement savings (including OASDI, FERS, and TSP match) as a percentage of salary?
- 2) How much do employing agencies pay as a percentage of the total service cost of FERS benefits? For what percentage of the FERS service cost are employees responsible?
- 3) The Committee believes strongly in the importance of transparency in government. Can OPM comment on how defined benefit plans, which pay an annuity 30 to 40 years after the benefits are first accrued, disguise the true cost of our Federal workforce, especially when the public attempts to compare salaries? Would the Administration support a shift toward a defined contribution plan, which pays out benefits upon accrual and eliminates future Government liability, as consistent with its "Memorandum on Transparency and Open Government"?
- 4) OPM's mission is to "recruit, retain, and honor a world-class workforce to serve the American people." As other employers look to attract younger professionals, they have moved to defined contribution plans that offer greater flexibility and employee control. Gwinnett County, Georgia, for example, carried out recruitment studies before moving to a defined contribution plan and found it would help meet their goal of recruiting young professionals.

Has OPM studied whether its current pension system meets the needs of recruiting a 21st century workforce? Does the lack of a defined contribution plan, similar to those found in the private sector, create succession risks for the Federal workforce?

- 5) OPM's actuaries calculate the service cost of providing FERS and CSRS benefits. The Committee noticed that the service cost increased nearly every year for the past four or five years for which data is readily available. This additional cost is paid for entirely by, in the case of FERS, the employing agency and in the case of CSRS, transfers from the general fund.

Can OPM provide the Committee with a list of the service cost of each year for the past 10 years? Does OPM expect the service cost, and by extension the cost to taxpayers, of providing pension benefits to continue rising?

- 6) Eliminating the FERS supplemental annuity would save the retirement fund nearly \$255 million a year. The President supports this, and the House passed a provision eliminating it last month. Does OPM support the elimination of the FERS supplemental annuity? What is OPM's justification for providing an extra \$600 a month, on average, for those employees who retired prior to reaching Social Security's retirement age?

Mr. Charles Grimes

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- 7) Processing retirement applications is an expensive and time consuming process. OPM will spend \$91 million this fiscal year to run its retirement systems and the average annuitant will wait four and a half months before he or she receives the first full check. Additionally, OPM wasted \$180 million in overpayments in 2011. How do these overhead costs compare to similar state pension systems? Could the government significantly reduce administrative costs by moving to a defined contribution plan?

**Post-Hearing Questions for the Record
Submitted to Mr. Charles D. Grimes III
Chief Operating Officer
U.S. Office of Personnel Management**

From Chairman Dennis Ross

Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy

**Hearing on "Retirement Readiness: Strengthening the Federal Pension System"
January 25, 2012**

1) **Answer:** The numbers below do not reflect the temporary reduction in OASDI for 2011 and first two months of 2012 as a result of passage of the payroll tax relief.

**FERS Employee Contributions as a Percent of Pay
Fiscal Year 2012**

| | FERS Defined Benefit* | TSP Average** | OASDI*** | Total |
|------------------------------|-----------------------------|------------------|----------|-------|
| <u>Employer Contribution</u> | | | | |
| Regular FERS | 11.9% | 4.3% | 6.2% | 22.4% |
| Reserve Technicians | 14.9% | 4.3% | 6.2% | 25.4% |
| Air Traffic Controllers | 26.0% | 4.3% | 6.2% | 36.5% |
| LEO & FF | 26.3% | 4.3% | 6.2% | 36.8% |
| Congressional Employees | 16.7% | 4.3% | 6.2% | 27.2% |
| Members of Congress | 18.3% | 4.3% | 6.2% | 28.8% |
| <u>Employee Withholding</u> | | | | |
| Regular FERS | 0.8% | 7.0% | 6.2% | 14.0% |
| Reserve Technicians | 0.8% | 7.0% | 6.2% | 14.0% |
| Air Traffic Controllers | 1.3% | 7.0% | 6.2% | 14.5% |
| LEO & FF | 1.3% | 7.0% | 6.2% | 14.5% |
| Congressional Employees | 1.3% | 7.0% | 6.2% | 14.5% |
| Members of Congress | 1.3% | 7.0% | 6.2% | 14.5% |
| <u>Total Cost</u> | | | | |
| Regular FERS | 12.7% | 11.3% | 12.4% | 36.4% |
| Reserve Technicians | 15.7% | 11.3% | 12.4% | 39.4% |
| Air Traffic Controllers | 27.3% | 11.3% | 12.4% | 51.0% |
| LEO & FF | 27.6% | 11.3% | 12.4% | 51.3% |
| Congressional Employees | 18.0% | 11.3% | 12.4% | 41.7% |
| Members of Congress | 19.6% | 11.3% | 12.4% | 43.3% |

* FERS Contributions are effective rates as of beginning of Fiscal Year

2012

** OPM does not maintain TSP; averages are estimated from 2002 data obtained from Thrift Board

*** OASDI contribution up to maximum wage base (\$110,100 in 2012);
through Feb 2012 OASDI rate is 4.2%

2) **Answer:** The numbers below do not reflect the temporary reduction in OASDI for 2011 and first two months of 2012 as a result of passage of the payroll tax relief.

**FERS Employee Contributions as a Percent of Total
Fiscal Year 2012**

| | FERS Defined Benefit* | TSP Average** | OASDI*** | Total |
|---|-----------------------------|------------------|----------|-------|
| <u>Employer Contribution / Total Cost</u> | | | | |
| Regular FERS | 94% | 38% | 50% | 62% |
| Reserve Technicians | 95% | 38% | 50% | 64% |
| Air Traffic Controllers | 95% | 38% | 50% | 72% |
| LEO & FF | 95% | 38% | 50% | 72% |
| Congressional Employees | 93% | 38% | 50% | 65% |
| Members of Congress | 93% | 38% | 50% | 67% |
| <u>Employee Withholding / Total Cost</u> | | | | |
| Regular FERS | 6% | 62% | 50% | 38% |
| Reserve Technicians | 5% | 62% | 50% | 36% |
| Air Traffic Controllers | 5% | 62% | 50% | 28% |
| LEO & FF | 5% | 62% | 50% | 28% |
| Congressional Employees | 7% | 62% | 50% | 35% |
| Members of Congress | 7% | 62% | 50% | 33% |
| <u>Total Cost</u> | | | | |
| Regular FERS | 100% | 100% | 100% | 100% |
| Reserve Technicians | 100% | 100% | 100% | 100% |
| Air Traffic Controllers | 100% | 100% | 100% | 100% |
| LEO & FF | 100% | 100% | 100% | 100% |
| Congressional Employees | 100% | 100% | 100% | 100% |
| Members of Congress | 100% | 100% | 100% | 100% |

* FERS Contributions are effective rates as of beginning of Fiscal Year
2012

** OPM does not maintain TSP; averages are estimated from 2002 data

*** OASDI contribution up to maximum wage base (\$110,100 in 2012);

through Feb 2012 OASDI rate is 4.2%

3) **Answer:** OPM also strongly believes in transparency in government, and notes that transparency of costs was a principal goal in establishing the FERS structure. FERS was designed so that the full cost of FERS is not only recognized but is also actually paid at the time service is performed. Nothing is hidden or disguised.

OPM does not support a conversion from the current hybrid structure that incorporates both defined benefit and contribution aspects to a pure defined contribution structure.

4) **Answer:** The current FERS hybrid retirement structure is one of the Government's strongest recruitment and retention tools. This three part hybrid structure consists of a defined benefit element (FERS), a defined contribution element (TSP, the Thrift Savings Plan), and Social Security coverage.

This hybrid structure was designed to address multiple requirements of creating a 21st century workforce. Contrary to the question, it in fact does include a fully portable defined contribution element to respond to today's more frequently transient workforce. However, the Government also has many long-term programs that can most effectively be administered by long-term career employees. As noted by one of the other witnesses in response to a question at the hearing, a defined benefit plan is a very strong retention incentive for mid-career employees. Thus, the hybrid nature of the FERS structure responds well to all aspects of recruitment and retention.

5) **Answer:** Below is a history of the dynamic normal cost for CSRS and FERS from 1987 forward. The normal cost effective beginning FY2012 is the level percentage of pay that would be expected to fully fund the value of the benefit provided if paid from date of hire. This normal cost percentage is based on the current assumptions recommended by OPM's Board of Actuaries. Recent increases to the normal cost are due primarily to the adoption of assumptions that are more conservative in the aggregate reflecting changes in participant experience and future economic rates. These assumption changes include lower nominal and real interest rates, increased assumed real salary increases, and increased longevity (lower mortality rates). The increase in the FERS normal cost effective in 2011 also included a cost associated with a FERS plan amendment in the 2010 Defense Authorization Act allowing credit for unused sick leave toward the FERS benefit.

There is no change to the current normal costs in process of being implemented at this time. A change in the normal cost percentages could occur if and when OPM revises its underlying assumptions as to future economic and demographic factors effective the retirement system, based on plan experience and the future recommendations of our Board of Actuaries.

| Effective Fiscal Year | 1987 | 1988 | 1992 | 1995 | 1998 | 2002 | 2005 | 2008 | 2011 | 2012 |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Normal Cost: | | | | | | | | | | |
| Regular CSRS | 34.8% | 28.9% | 28.3% | 25.1% | 24.2% | 24.4% | 25.0% | 25.2% | 25.8% | 26.0% |

| | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Regular FERS | 16.1% | 13.8% | 13.7% | 12.2% | 11.5% | 11.5% | 12.0% | 12.0% | 12.5% | 12.7% |
| Underlying Assumptions | | | | | | | | | | |
| Long Term Annual Inflation | 5.00% | 5.00% | 5.00% | 4.50% | 4.00% | 3.75% | 3.25% | 3.50% | 3.50% | 3.00% |
| Long Term Annual Rate of Interest | 6.50% | 7.00% | 7.00% | 7.00% | 7.00% | 6.75% | 6.25% | 6.25% | 6.25% | 5.75% |
| Long Term Annual Rate of Salary Growth | 5.50% | 5.00% | 5.00% | 4.50% | 4.25% | 4.25% | 4.00% | 4.25% | 4.25% | 3.75% |
| * Change in Demographic Assumptions | * | | * | | * | * | | * | * | |
| # Change in Plan Provisions | | | | | | | | | | # |

6) **Answer:** While the President's Budget proposes to eliminate the FERS supplemental benefit for new employees (other than for employees subject to mandatory retirement), we believe it would not be appropriate to deny this benefit to current employees who have been employed with the promise that this would be available to them.

7) **Answer:** OPM's administrative costs over the 10 year period from FY2001 through FY2010 averaged approximately 0.27% of benefits. This includes all outlays for contract costs during that period. By comparison, data on a number of state pension plans is as follows, although several of these offices are responsible for broader and more centralized administrative responsibilities including preparing retirement-eligible public employees for retirement and assembling retirement applications: Arkansas 2009 (1.83%), Maryland 2003 (1.44%), Florida 2009-11 (1.27%), Illinois 2007 (the lowest at 0.95%), Louisiana 2008 (1.70%), Colorado 2004 (1.76%), and California CALPERS 2010-11 (the highest at 2.47%).

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PROTECT America's Heartbeat

February 21, 2012

Representative Dennis Ross
Chairman, Subcommittee on the Federal Workforce, US Postal Service and Labor Policy
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Ross:

As requested, I am replying to questions following my testimony before the Subcommittee on the Federal Workforce, U.S. Postal Service and Labor Policy on January 25, 2012, at the hearing entitled, "Retirement Readiness: Strengthening the Federal Pension System." Thank you again for the opportunity to testify.

My responses to the provided questions are below. Please let me know if there are any further questions regarding my testimony or the information provided below.

Sincerely,

David Snell
Director, Retirement Benefits

CC: Representative Gerry Connolly, Ranking Member

National Active and Retired Federal Employees Association

www.NARFE.org | 606 N. Washington Street, Alexandria, VA 22314 | phone 703-838-7760 | fax 703-838-7785

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Q: Mr. Snell, what percentage of federal employees live outside of the National Capital Region?

A: Approximately 85 percent of all federal workers live outside of the National Capital Region.

Q: Mr. Snell, some people seem to believe that federal employees are generally office workers. Can you give some examples of what the 85% of federal employees who don't live here do every day?

A: Just a few examples include postal employees who deliver the mail six days a week, U.S. Forest Service employees who fight fires and U.S. Customs and Border Protection agents who are responsible for protecting our borders and guarding our ports. Air travel is kept safe and secure by employees of the Transportation Security Agency and Federal Aviation Administration. Agents for the Federal Bureau of Investigation bring child predators to justice while Federal Bureau of Prisons employees keep them behind bars and off the streets.

Q: Mr. Snell, some have suggested eliminating the defined-benefit portion of federal employees' retirement savings. What would happen to federal employees who retired, say, during the recession in 2009?

A: During the recession in 2009, Federal Thrift Savings Program (TSP) accounts declined 40 percent in value. If defined benefits were eliminated, a middle-class federal retiree would be dependent only on Social Security benefits and TSP investments. For a GS-9 firefighter, who retired at a \$50,000 annual salary that means a loss of \$9,000 per year in retirement benefits. Also, widows and orphans of federal employees killed in the line of duty would be devastated if the defined-benefit portion were eliminated.

Q: Mr. Snell, since the federal pay freeze has been in place, have private sector salaries grown or shrunk relative to federal salaries?

A: According to the Bureau of Labor Statistics, prior to the recession, federal employees earned, on average, 22 percent less than their private-sector counterparts. An updated review shows that federal employees, on average, earn 26 percent less.